IEG WORLD BANK | IFC | MIGA
Independent Evaluation Group

PHASE 1

The World Bank Group's Response to the Global Economic Crisis

The World Bank Group

WORKING FOR A WORLD FREE OF POVERTY

The World Bank Group consists of five institutions—the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). Its mission is to fight poverty for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

The Independent Evaluation Group

IMPROVING DEVELOPMENT RESULTS THROUGH EXCELLENCE IN EVALUATION

The Independent Evaluation Group (IEG) is an independent, three-part unit within the World Bank Group. IEG-World Bank is charged with evaluating the activities of the IBRD (The World Bank) and IDA, IEG-IFC focuses on assessment of IFC's work toward private sector development, and IEG-MIGA evaluates the contributions of MIGA guarantee projects and services. IEG reports directly to the Bank's Board of Directors through the Director-General, Evaluation.

The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank Group's work, and to provide accountability in the achievement of its objectives. It also improves Bank Group work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.

IEG WORLD BANK | IFC | MIGA

INDEPENDENT EVALUATION GROUP

The World Bank Group's Response to the Global Economic Crisis

—PHASE 1—

2010
The World Bank
Washington, D.C.

©2010 The International Bank for Reconstruction and Development / The World Bank
1818 H Street NW
Washington, DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org
E-mail: feedback@worldbank.org

All rights reserved

1 2 3 4 13 12 11 10

This volume, except for the "Management Response" and the "Chairperson's Comments," is a product of the staff of the Independent Evaluation Group of the World Bank Group. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank and IFC or the governments they represent. This volume does not support any general inferences beyond the scope of the evaluation, including any inferences about the World Bank Group's past, current, or prospective overall performance.

The World Bank Group does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The International Bank for Reconstruction and Development / The World Bank and IFC encourage dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

For permission to photocopy or reprint any part of this work, please send a request with complete information to the Copyright Clearance Center Inc., 222 Rosewood Drive, Danvers, MA 01923, USA; telephone: 978-750-8400; fax: 978-750-4470; Internet: www.copyright.com.

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org.

Cover photo: Child eating porridge from food bank, Lukula, Tanzania. Photo courtest of Gideon Mendel/Corbis.

ISBN: 978-0-8213-8665-1
eISBN: 978-0-8213-8666-8
DOI: 10.1596/978-0-8213-8665-1

Library of Congress Cataloging-in-Publication data have been applied for.

World Bank InfoShop
E-mail: pic@worldbank.org
Telephone: 202-458-5454
Facsimile: 202-522-1500

Independent Evaluation Group
Communications, Learning, and Strategy
E-mail: ieg@worldbank.org
Telephone: 202-458-4497
Facsimile: 202-522-3125

Printed on Recycled Paper

Table of Contents

Abbreviations ... vi

Acknowledgments ... viii

Foreword ... ix

Executive Summary ... x

Management Response ... xxi

Chairperson's Comments: Committee on Development Effectiveness (CODE) ... xxix

1. Introduction ... 2
   - Objectives ... 2
   - Evaluation Issues and Questions ... 2
   - Methodology ... 3

2. The Global Crisis and Its Impact on Developing Countries ... 6
   - Overview ... 6
   - Globalization of the U.S. Financial Crisis ... 6
   - Impact of the Crisis on Developing Countries ... 7
   - Social Impact of the Crisis ... 10
   - Fiscal and Debt Dynamics: Before and After the Crisis ... 11
   - Comparison with Previous Crises ... 12

3. The World Bank Group's Response ... 16
   - World Bank Response ... 18
   - IFC Response ... 31
   - MIGA Response ... 40

4. Assessment of the World Bank Group Response ... 44
   - Assessment of World Bank Response ... 44
   - Assessment of the IFC Response ... 57
   - Assessment of MIGA's Response ... 69

5. Lessons and Issues for the Future ... 72
   - Introduction ... 72
   - Lessons from Past Crises ... 72
   - Emerging Lessons ... 73
   - Issues Going Forward ... 76

Statistical Appendix 79

Endnotes 103

References 106

Photographs 108

Boxes

2.1 The Three Phases of the Bank's Strategic Approach to Agriculture 12
3.1 Special Thematic Crisis Response Initiatives 21
3.2 Velocity of Disbursements: Comparison of DPOs and Investment Lending 22
3.3 Portfolio of AAA to Inform Lending 25
3.4 IBRD Capital Adequacy: Evolution of Development Committee Views 28
3.5 What Low-Income Countries Say about the Bank's Crisis Performance 31
3.6 Examples of Projects Originated through the IFC Crisis Initiatives 33
3.7 Examples of IFC's Crisis-Period Interventions in IDA and non-IDA Countries 38
4.1 Case Study Countries: Crisis Severity and World Bank and IMF Financial Support 46
4.2 Mexico: A Substantial Crisis Response 47
4.3 Indonesia: Bank Support through Contingency Financing 47
4.4 India: Comprehensive Crisis Response 48
4.5 Hungary: Delayed Attempt to Support a Graduated Country 49
4.6 Georgia: Bank Readiness and Leadership in a Post-Conflict Situation 49
4.7 Turkey: Adaptation of an Existing Program 54
4.8 Georgia: A Systemic Crisis Response by IFC 69

Figures

2.1 Crisis Chronology, 2007–10 6
2.2 Private Capital Flows, 2006–10 7
3.1 IBRD/IFC Financing to Developing Countries, Fiscal Years 1990–2010 17
3.2 World Bank Commitments and Disbursements: The Long View 18
3.3 The Evolving Forecast for 2009: The Bank and Others 26
3.4 Impact of Crises on Bank-Fund Collaboration in LICs and MICs 30
3.5 Implementation of IFC's Global Crisis Initiatives 35
3.6 IFC Investment Commitments, Fiscal Years 2005–10 36
3.7 Net IFC Commitments by Region, Fiscal Years 2008–10 37
3.8 Net IFC Commitments by IDA Status, Fiscal Years 2006–10 37
3.9 IFC Instrument Mix, Fiscal Years 2008 –10 39
3.10 Net IFC Commitments by Industry Cluster, Fiscal Years 2008 –10 39
3.11 MIGA: Volume of Guarantees Issued by Region, Fiscal Years 2008 –10 41

4.1 Changes in Net IFC Commitments and Net Private Investment by Income Group 60
4.2 Productivity of IFC Investment Staff, Fiscal Years 2008–10 62
4.3 IFC Financing Projections, 2009–13 64
4.4 Additionality and Development Outcomes of IFC Investment Operations in Past Crises 68

Tables

2.1 Growth Projections 9
2.2 Poverty in Developing Countries, Alternative Scenarios, 2005–20 11
2.3 General Government Gross Debt by Country Group 11
2.4 General Government Balance by Country Group 12
3.1 World Bank Group Commitments, Fiscal Years 2008–10 17
3.2 IFI Financial Flows, Fiscal Years 2009–10 18
3.3 Regional Shares of Bank Lending Commitments and Disbursements 19
3.4 World Bank Operational Productivity for New Lending 29
3.5 IFC's Crisis Initiatives: Funding and Deployment 34
3.6 Staff Mix in IFC Investment Operations, 2008–10 36
3.7 Countries with Largest Net Commitment Changes by IDA Status 38
3.8 Changes in Net IFC Commitments by Subsector 40
3.9 MIGA Projects and Guarantee Volume, Fiscal Years 2008 –10 41
3.10 MIGA: Volume of Guarantees Issued by Sector, Fiscal Years 2008 –10 41
4.1 Selected Development Policy Operations Approved in Fiscal Years 2009–10 50
4.2 Net IFC Commitments and Net Private Investment Relative to Changes in Country Risk Perceptions, 2008–09 59
4.3 Changes in Private Investments of Multilateral Development Banks, 2007–09 60
4.4 Private Sector Deals Supported Jointly by IFC and Other IFIs in Case Study Countries, 2008–10 65
4.5 Performance of the GTFP and the GTLP, July 2008 to June 2010 66
4.6 Nature of IFC Investments in Case Study Countries 68

Abbreviations

AAA	Analytic and advisory activities
ADB	Asian Development Bank
AFD	Agence Française De Développement
AfDB	African Development Bank
AMC	Asset Management Company
CDB	Caribbean Development Bank
CODE	Committee on Development Effectiveness
DARP	Debt and Asset Recovery Program
DBSA	Development Bank of Southern Africa
DDO	Deferred drawdown option
DEC	Development Economics Department
DEG	German Finance Company for Investments in Developing Countries
DFIs	Development financial institutions/direct foreign investments
DPL	Development Policy Loan
DPO	Development policy operation
EBRD	European Bank for Reconstruction and Development
EC	European Communities
EIB	European Investment Bank
ESW	Economic and sector work
EU	European Union
FMO	Netherlands Development Finance Company
FPD	Financial and Private Sector Development Department
FSAP	Financial Sector Assessment Program
GDP	Gross domestic product
GFRP	Global Food Response Program
GTFP	Global Trade Finance Program
GTLP	Global Trade Liquidity Program
HDN	Human Development Network
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICF	Infrastructure Crisis Facility
IDA	International Development Association
IDC	Investissement Développement Conseil Sa
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
INFRA	Infrastructure Recovery and Assets Platform
IsDB	Islamic Development Bank
JBIC	Japan Bank of International Cooperation
KfW	German Development Bank
LIBOR	London interbank offered rate
LIC	Low-income country
MDB	Multilateral development bank
MDGs	Millennium Development Goals
M&E	Monitoring and evaluation

MEF	Microfinance Enhancement Facility
MFI	Microfinance institution
MIC	Middle-income country
MIGA	Multilateral Investment Guarantee Agency
OECD	Organisation for Economic Co-operation and Development
OPCS	Operations Policy and Country Services (World Bank)
OPEC	Organization of Petroleum Exporting Countries
PREM	Poverty Reduction and Economic Management
RSR	Rapid Social Response (Program)
SDN	Social Development Network
SMEs	Small and medium enterprises
SWAps	Sector-wide approaches

Acknowledgments

This report presents findings of the first phase of an Independent Evaluation Group (IEG) evaluation of the World Bank Group's response to the global economic crisis. The second phase of the evaluation is expected to be completed in 2011. This evaluation was conducted by a team led by Ismail Arslan and Daniel Crabtree, drawing on contributions from (in alphabetical order) Federico Arcelli, Amitava Banerjee, Shahrokh Fardoust, Ann Flanagan, Nils Fostvedt, Javed Hamid, Houqi Hong, Sarwat Jahan, Basil Kavalsky, Carla Pazce, Manuel Peñalver-Quesada, Anwesha Prabhu, Joanne Salop, Marcelo Selowsky, and Steven Webb. Agnes Santos and Richard Kraus were responsible for administrative and production aspects. Caroline McEuen edited the document.

The peer reviewers for this first phase of the evaluation were Johannes Linn, Senior Resident Fellow, Emerging Markets Forum, and former World Bank Vice President for Europe and Central Asia, and Guy Pfeffermann, Chief Executive Officer and Chairman of the Board at the Global Business School Network and a former Director of the Economics Department and Chief Economist for the International Finance Corporation.

Comments received from World Bank Group management on an earlier draft of this report are gratefully acknowledged. In addition, the evaluation benefited from comments and suggestions raised, notably by the Bank's Chief Economist and Regional Chief Economists, during an informal discussion meeting convened by the Director-General.

This first phase of the evaluation was overseen by an IEG Steering Committee comprising Daniela Gressani, Deputy to the Director-General, Evaluation, and Senior Advisor; Ali Khadr, Senior Manager, IEG-World Bank; Marvin Taylor-Dormond, Director, IEG-International Finance Corporation (IFC); and Stoyan Tenev, Head of Macro Evaluation, IEG-IFC. The evaluation is conducted under the guidance of Cheryl Gray, Marvin Taylor-Dormond, and Christine I. Wallich. The work is carried out under the overall leadership of Vinod Thomas, Director-General, Evaluation.

Director-General, Evaluation: *Vinod Thomas*
Director, IEG-World Bank: *Cheryl Gray*
Director, IEG-IFC: *Marvin Taylor-Dormond*
Director, IEG-MIGA: *Christine I. Wallich*
Senior Manager, IEGCR-World Bank: *Ali Khadr*
Head, Macro Evaluation, IEG-IFC: *Stoyan Tenev*
Task Manager, IEG: *Ismail Arslan*
Task Manager, IEG: *Daniel J. Crabtree*

Foreword

Responding to the global economic crisis that broke out in the second half of 2008, the World Bank Group has performed a strongly countercyclical role. Its disbursements of $80 billion in the past two fiscal years were the largest among the multilateral development banks (MDBs). The volume of financing from the World Bank Group— as well as the other MDBs—has fitted the nature of the crisis, which called for a fiscal expansion to compensate for sharply declining trade and private capital flows.

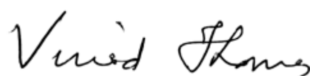
There was notable variation across the Bank Group response, with substantially increased International Bank for Reconstruction and Development (IBRD) lending, moderately higher financing through the International Development Association (IDA), and overall responses from the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) that were not countercyclical. Taken together, the principal recipients of the Bank Group lending have been middle-income countries (MICs), some that were especially affected by the crisis. With the MICs now leading the global recovery, this engagement also shows the part the Bank Group now plays in stabilizing world economic growth.

The crucial question concerns the effectiveness and sustainability of this crisis response. Good use of funds to sustain growth and ensure macroeconomic stability is more important than ever, in view of emerging fiscal deficits and debt, financial stress, and other risks—especially the threat that climate change will derail development. Vital is Bank Group support for the capacity of clients—sovereign or otherwise—to generate environmentally and socially sustainable growth, reduce poverty, and assure servicing of their debt.

Sustainability is also a concern from the perspective of the Bank Group's own resourcing and capital adequacy for managing higher levels of commitments and meeting upcoming challenges, notably downswings in the global economy. It is an open question if an alternative path, calibrating the acquisition and application of capital to the changing medium term needs of countries, would eventually yield better results over time.

What is clear from the experience of this crisis reaction is the benefit of taking a strategic approach, balancing capital adequacy, effective deployment of resources, and results on the ground. Elements in such an approach would include both immediate and continuing exigencies:

- Developing mechanisms to ensure early warning, financial preparedness, and operational readiness.
- Blending country-level responses within a global strategy to apply scarce resources where they are most effective.
- Keeping in focus the priority for supporting structural reforms in countries for inclusive and environmentally sustainable growth, even or especially in the midst of immediate crisis demands.
- Maintaining sector or thematic skills and related institutional capabilities in ways that outlast fads or near-term cycles.
- Balancing innovation in instruments and partnerships with continuity of delivery to ensure the speed, credibility, and quality that are essential in a crisis.
- Capitalizing on the combined strengths of the Bank Group through the exploitation of synergies across the Bank, IFC, and MIGA and leveraging external partnerships.



Vinod Thomas
Director-General, Evaluation

Photo courtesy of Arne Hoel/World Bank.

Executive Summary

The global economic crisis that began in 2008 threatened to erase years of progress in developing countries. In response, the World Bank Group increased lending to unprecedented levels. The World Bank posted a large increase in middle-income countries (MICs), and a much smaller one in low-income countries (LICs). The International Finance Corporation (IFC) focused on trade finance, mainly in LICs. Its new business initially fell in MICs, rebounding only in late fiscal 2010. The Multilateral Investment Guarantee Agency (MIGA) concentrated on guarantees in Eastern Europe. Analytic and advisory work helped inform government and private sector responses to the crisis.

Increases in financing volume must be matched by quality to achieve sustained economic results. Quality-at-entry indicators have generally been positive. But certain areas—the financial sector specifically and results on the ground more generally—are a cause for concern, particularly given continued tight budgets. The financial headroom available to the International Bank for Reconstruction and Development (IBRD) enabled it to launch a large response in a few MICs, driven by country demand, while the more modest International Development Association (IDA) response reflected an inelastic funding envelope and performance-based resource allocation. Most crisis-related Bank financing was channeled to economic policy, social protection, and the financial sector through record levels of development policy lending, while slower-disbursing investment operations supported longer-term investment, especially in infrastructure. Whether a more tailored, short-maturity instrument would have helped the response, and the Bank's own financial sustainability, is an open question.

IFC's financial capacity, though impaired by the crisis, could still have supported a moderate countercyclical response. Ultimately, IFC's response was largely procyclical, following a v-shaped pattern overall. Its crisis initiatives showed creativity and strategic positioning in soliciting funds from external partners and creating a new subsidiary, the Asset Management Company. Overall, the response has delivered positive effects, mostly in LICs, with existing clients, and in cofinanced operations. But opportunities were missed, and the effectiveness of the initiatives has been diluted by design and implementations weaknesses—such as the time needed for fund-raising and internal capacity building. MIGA helped several key financial institutions in Eastern Europe through guarantees.

A crisis originating in Organisation for Economic Co-operation and Development (OECD) countries tests the readiness of the International Monetary Fund (IMF) first, but global interdependence also requires a high state of Bank Group readiness. Three aspects contributing to the Bank's readiness were knowledge of poverty impacts, long-term relationships with country authorities, and IBRD's inherited financial headroom. Areas of weakness included dissemination of global economic forecasting updates at the onset of the crisis and early recognition of, and action on, country financial sector vulnerabilities. With IDA, a midterm increase in resources may have been warranted.

Photo courtesy of Curt Carnemark/World Bank.

IFC lessons include the need for financial headroom, sufficient risk appetite, leveraging existing partnerships and platforms, and staying focused on development effectiveness. MIGA urgently needs greater product flexibility and enhanced business development.

This assessment underscores the strong countercyclical role that the Bank Group eventually played, with partners and countries, to help withstand the global downturn. Its expansionary nature fit the profile of the crisis, but the emerging deficits, debt, and financial sector vulnerabilities place a premium on effectiveness of resource use, generation of sustainable growth, and macroeconomic stability. The assessment does not address the open question of whether an alternative response, involving a lower level of financing in fiscal years 2009–10, coupled with a greater financial capacity going forward might have better optimized the Bank Group's capital use over the coming years.

This report presents an initial real-time evaluation of the readiness, relevance, quality-at-entry, short-term results, and likely sustainability of the Bank Group response from the start of the crisis through fiscal 2010. This evaluation builds on a 2008 Independent Evaluation Group (IEG) assessment of Bank Group interventions during past crises and draws extensively on 11 country case studies and field visits. Given the short time since the crisis response started, the evaluation is geared more to raising flags than to presenting definitive conclusions.

The evaluation begins with a review of the impact of the crisis on developing countries, before describing and assessing the Bank Group response, and inferring lessons and implications for the future.

Impact on Developing Countries

The first signs of crisis in the developing world were sharp contractions in private capital flows and trade. From a peak of around $1,200 billion in 2007, net private capital flows to developing countries fell by over a third in 2008, as the liquidity squeeze in advanced economies led investors to pull back from emerging markets. Private flows weakened further in 2009. There are indications of a rebound in 2010, however, with the expectation that flows will increase by 30 percent over 2009. Trade also fell sharply, as export markets collapsed, although these volumes are also starting to recover.

The severity of the crisis has varied across countries, reflecting differences in geography, country policies, and global integration. The Latin America and the Caribbean and Europe and Central Asia Regions were the most affected. Countries in Latin America and the Caribbean were highly integrated with the U.S. economy, the epicenter of the crisis, while Europe and Central Asia countries had fiscal and external imbalances and financial sector vulnerabilities. MICs were more affected than LICs, although LICs had greater vulnerability to negative shocks. Experience gained during the crises of the 1990s increased the preparedness of several countries, often with Bank Group help in reforms.

Consensus emerged on the need for fiscal stimulus, within budget constraints. Those with limited fiscal space had less room to respond and suffered more severe impacts. But as a group, developing countries have grown more quickly than industrial countries, and they are leading the global recovery. Developing country debt-to-GDP (gross domestic product) ratios were lower at end-2009 than at end-2000, though higher than in 2007. But fiscal deficits in both developed and developing countries have worsened over the past two years (by a sharp 5 percentage points in developing countries). Countercyclical spending programs are starting to be rolled back as the recovery takes hold.

The crisis reversed the decline in poverty of the past decade. The Bank Group estimates that by end-2010, an additional 114 million people worldwide will have fallen below the $1.25 a day poverty line since the onset of the crisis. Even with a rapid recovery, some 71 million people would remain in extreme poverty by 2020 who would have escaped it had the crisis not occurred. Unemployment rates remain high in several countries.

World Bank Group Response

Once triggered by high-profile events, the crisis spread quickly, taking many—including the Bank Group—by surprise. The Bank Group responded to the crisis in waves. Its initial response narrowly focused on increasing Bank lending, especially in MICs. As the scale of the demand became apparent, the Bank rationed available IBRD capital and obtained Board approval for an IDA Fast-Track Facility. IFC and MIGA developed initiatives to leverage their impact and (in IFC's case) mobilize funds.

After initially underscoring only the volume of financial support, the Bank Group over time set out linkages across programs. In March 2009, the Bank Group announced that it was "stepping up…financial assistance to help its member countries mitigate the impact of the crisis" to $100 billion for IBRD, $42 billion for IDA, and $36 billion for IFC. The financial assistance would fall under three operational crisis-response pillars: protect the most vulnerable; maintain long-term infrastructure investment; and sustain the potential for private sector–led growth, with "an over-arching focus on macroeconomic stability."

International financial institutions (IFIs) responded strongly to the crisis and posted the largest-ever financial flows to the developing world—with the World Bank

Group registering the largest disbursements. All IFIs have seen sharp increases in financing, though the total amounts of the IMF and Bank Group are much larger than those of the other IFIs. Between fiscal years 2009 and 2010, the IMF committed $219 billion and disbursed $67 billion, the notable difference reflecting the contingent nature of much of its support. In the same period, the Bank Group committed $128.7 billion and disbursed a record $80.6 billion—a larger amount than other IFIs, including the IMF. Bilateral development assistance also increased, by nearly $20 billion between 2007 and 2009.

Capital headroom was a determining factor. Low pre-crisis demand for IBRD funding left it with the headroom to increase lending nearly threefold during fiscal years 2009–10. In contrast, the IDA funding envelope, determined before the crisis, enabled a lesser increase (25 percent). Given equity write-downs and an increase in nonperforming loans, and transfers to IDA from surplus, IFC's capital was more constrained, allowing—based on internal estimates—a rise in annual investments of the order of 5 percent.

Approaches to pricing varied. IFC loan pricing is built on the premise that they should complement and not displace private capital, factoring in project and country risk premiums. As a result, prices tended to rise most in countries hit hardest by the crisis. IBRD pricing does not discriminate among borrowers, and was historically low at the onset of the crisis.

World Bank

Bank commitments and disbursements reached an all-time high. During fiscal years 2009–10, the Bank committed over $105.6 billion and disbursed $68.1 billion, compared with $49.4 billion and $39.2 billion during fiscal years 2007–08. The vast majority of the increase was through the IBRD. Sixty-five percent of IBRD disbursements were from commitments approved since July 2008; the ratio for IDA was 36 percent. The majority of disbursements from pre-crisis commitments were investment loans, which showed little evidence of faster disbursement than in previous years.

The distribution of lending broadly mirrored differential crisis impact and financing needs, as well as differences in IBRD and IDA resources. Latin America and the Caribbean and Europe and Central Asia, the most severely impacted Regions, saw their shares rise. The focus was on social protection and other countercyclical programs in Latin America and the Caribbean, and on fiscal and debt sustainability in Europe and Central Asia. Conversely, the shares of Sub-Saharan Africa and East Asia and the Pacific declined, while the share of the Middle East and North Africa remained broadly unchanged, and the South Asia share declined in fiscal 2009, before bouncing back in 2010. The decline in Sub-Saharan Africa's share reflects the sharp increase in IBRD lending relative to IDA, rather than any diminution of lending to Sub-Saharan Africa.

The sector allocation of resources was consistent with the Bank's goals for the crisis response. Economic policy, the financial sector, and social protection represented 65 percent of the $28.8 billion increase in disbursements in fiscal years 2009–10. Social protection, 17 percent of the increase, was mainly development policy operations (DPOs) and quick-disbursing investment loans, and was concentrated in few loans and few countries, with 60 percent going to Colombia, Ethiopia, Mexico, and Poland. Infrastructure operations accounted only 18 percent of the increase in disbursements, despite being 30 percent of new commitments, reflecting longer lead times.

Photo courtesy of Scott Wallace/World Bank.

Much of the increased lending was delivered through DPOs, but investment lending was robust. Investment lending accounted for about 60 percent of commitments and disbursements in fiscal years 2009–10, and DPOs—a medium-term instrument whose suitability for a crisis is unclear—for approximately 40 percent. For the IBRD, DPOs edged above 50 percent of commitments and disbursements in fiscal years 2009–10. For IDA, more than 75 percent of commitments and disbursements were investment operations. The Bank's response to the East Asian crisis was similarly focused on IBRD policy-based lending. But unlike the Bank's pattern in that event, IBRD investment lending commitments grew rapidly during this crisis, fueled by large energy and transport loans to MICs that have disbursed little to date.

The Bank's analytic response has had a relatively low profile. Analytic work did not feature in the objectives (or instruments) of the Bank's crisis-response strategy. But central units, especially Development Economics (DEC) and Poverty Reduction and Economic Management (PREM),

did significant analytic work. There were also trust funds for diagnostic work. Analytic work was supported by Regional and country units, according to resource availability and the severity of the crisis impact.

IFC

IFC responded with new global initiatives —including the creation of a new subsidiary—and actions through its regular business. The initiatives involved new delivery platforms targeting trade finance, infrastructure, microfinance, bank capitalization (overseen by a new subsidiary, the Asset Management Company), and distressed asset management. They were intended to leverage IFC's funds with up to $24 billion from external partners (development finance institutions in particular) by 2011. IFC also participated in joint IFI initiatives in Europe and Central Asia, Latin America and the Caribbean, and Sub-Saharan Africa. IFC made $20 billion in net commitments between fiscal years 2009 and 2010 from its own account, alongside efforts to ensure the financial sustainability of its portfolio.

IFC's initiatives were designed for phased implementation, but have been well behind schedule. Three stages of needs were envisaged: short-term liquidity (trade); longer-term liquidity and equity capital (microfinance, infrastructure, and bank capitalization platforms); and recovery support (distressed assets management). As of June 30, 2010, $9.2 billion had been approved for new initiatives, but only $1.9 billion had been disbursed. The new Global Trade Liquidity Program (GTLP) is the only one close to its target.

IFC's new business during the crisis has followed a v-shaped pattern. New IFC business, which had more than doubled from 2005 to 2008, fell by 18 percent in fiscal 2009, before increasing 28 percent in 2010. The v-shaped pattern of investment largely mirrors that of private investment as a whole. Meanwhile, IFC doubled the number of portfolio staff and carried out stress tests on its portfolio clients.

IFC's new business increased in LICs but, unlike the Bank's pattern, fell in MICs. IFC's investments in IDA countries increased 24 percent between fiscal years 2008 and 2010. Commitment increases were largest in Ghana and Pakistan. Conversely, IFC reduced its investment volumes in larger MICs, such as the Philippines, the Russian Federation, and Turkey. The focus in MICs was more on minimizing portfolio losses. New loan pricing rose sharply. Only in the final quarter of fiscal 2010 did MIC commitments start to rebound.

The crisis accelerated a trend in IFC toward short-term financing. Global Trade Finance Program (GTFP) guarantees have grown from a seventh to a third of new IFC commitments over the crisis period, contributing to a shift in resource allocation toward the financial sector. Longer-term infrastructure and real sector investments have declined considerably. Within these clusters, investments in physical infrastructure (particularly electric power) and agribusiness (agriculture and forestry in particular) declined most.

Activities in advisory services increased. Expenditures on new crisis-related advisory products (nonperforming loan management and insolvency regimes) were relatively small, at $13 million, through the end of fiscal 2010, although expenditures on core products (such as corporate governance and business environment work, mostly approved prior to the crisis) increased by around $20 million in fiscal 2009 and were often linked to crisis needs.

MIGA

MIGA's response is built around but not limited to a new global Financial Sector Initiative, focused initially on the Europe and Central Asia Region. Under this initiative, part of the Joint IFI Action Plan for Central and Eastern Europe, MIGA announced it would provide up to €2 billion in political risk insurance on cross-border investments by financial institutions to recapitalize or provide liquidity to subsidiaries. Drawing on its capacity to arrange reinsurance, this could commit up to $1 billion of MIGA net exposure in the Region. In fiscal 2010, guarantees totaling $918 million were issued under the initiative (six contracts issued in Serbia, Croatia, Latvia, and Kazakhstan), bringing MIGA's total cumulative support under the Financial Sector Initiative to $1.5 billion in gross guarantee coverage.

MIGA's guarantee issuance remained broadly unchanged but has become increasingly concentrated in the financial sector since the crisis began. MIGA's guarantee activity remained at trend levels during the crisis, with some $1.4–$1.5 billion in new guarantees in fiscal 2009 and 2010. At the same time, cancellations declined and MIGA's gross outstanding portfolio of guarantees reached $7.7 billion in fiscal 2010 (19 percent over fiscal 2008), as more investors held onto their guarantees. MIGA's crisis response initiative resulted in a large share of its guarantees issuance concentrated in the Europe and Central Asia Region and in the financial sector, while activity in infrastructure fell sharply, to some extent reflecting market developments. Guarantees in IDA countries also declined as a share of guarantee volume. Guarantee issuance was concentrated in terms of clients (guarantee holders), with the top two clients accounting for 80 percent of guarantees issued in fiscal 2009. Fully 88 percent of new guarantee issuance that year supported projects in the Europe and Central Asia Region.

Assessment of the World Bank Group Response

World Bank

Lags in the Bank's adaptation to the crisis affected the early phases of the response. At the 2008 Annual Meetings,

the Bank focused on the need for a new multilateralism. The IMF called for an immediate and coordinated response to the crisis. Given that the crisis emerged in the financial sector of advanced economies, the IMF had a more natural role in leading and sounding the alarm, but the Bank still needed to—and eventually did—react strongly.

Once the Bank internalized the crisis, the speed of its response was helped by several factors. The Bank's ongoing relations and dialogue enabled more rapid engagement with country authorities. Speed was also facilitated by Bank Group leadership and the establishment of a central operational structure, with the Operations Committee and the newly formed Crisis Response Working Group chaired by Operations Policy and Country Services.

Readiness was helped by the Bank's financial position at the start of the crisis. IBRD went into the crisis with an equity-to-loans ratio of 38 percent, compared with a target range of 23–27 percent, giving it substantial room to expand lending. This reflected prudent financial management as well as stagnant demand from MICs during the previous years. IBRD commitments had declined by 5 percent during fiscal 2007–08. IDA15 had just become effective on July 1, 2008, increasing IDA resources by about 25 percent, on top of a 25 percent increase in fiscal 2006–08.

Another positive factor was the Bank's ability to draw on its research and knowledge of poverty reduction—which now needs to be maintained. This included surveys enabling better targeting. The accumulated knowledge reflected continuing investments by DEC, PREM, and the Human Development Network (HDN) over the years on poverty, social safety nets, and labor markets. Examples include Bank support for conditional cash transfer programs in Bangladesh, Colombia, and Mexico and labor market improvements in Poland, Turkey, and Vietnam. Ongoing monitoring of the poverty and social effects of the crisis could, however, have been more systematic.

The increase in lending was concentrated in the MICs most hurt by the crisis, such as Colombia, Mexico, Turkey, and Ukraine. There were important exceptions, however, such as the large increase in IBRD commitments to Indonesia, among the least-affected countries, which served as support for the country's crisis-prevention efforts. India, moderately affected by the crisis, has seen a record rise in commitments in fiscal 2010.

The relevance of the Bank's analytic response is significant in some countries, but weak in others. Earlier analytic work provided a platform for the Bank response in some countries, sometimes in conjunction with international support packages. Where limited prior work was available, the quality of lending suffered. In some countries, in Europe and Central Asia in particular, increased lending appears to have crowded out new analytic work, a critical determinant of the quality of policy dialogue and lending, while in many others trust funds and/or incremental allocations from the Bank's budget allowed continuation of the work.

The design of programs appears to have been tailored to countries' diverse needs. Quality of program design was high in Georgia, Indonesia, and Mexico. In Hungary, however, the Bank did not respond adequately to country needs. The quality of the Bank's prior engagement with the country seems to have been a determining factor. And coordination with other partners, including the IMF, helped enhance quality and relevance, and thus likely impact.

Quality at entry of DPOs has been notably varied, reflecting sector strengths and weaknesses. The evaluation made an initial assessment of quality at entry for 46 DPOs, covering 68 percent of DPO volumes approved during the crisis period. The ratings were satisfactory on average, but ranged from highly satisfactory to unsatisfactory. The substantive program policy content and results frameworks for financial sector DPOs were the weakest, followed by infrastructure. Results frameworks for economic policy work had the most acceptable levels of quality, followed by social protection.

The Bank's flat overall administrative budget complicated delivery, which made the operational efforts all the more notable. Administrative resources for Bank country services rose about 5 percent annually in fiscal 2009 and 2010, barely enough to cover the surge in the operational work program that was associated with the crisis response. The implied "productivity" increase was achieved in part through larger project size, which doubled for IBRD and increased by 30 percent for IDA. But economies of scale have limits, raising important concerns—now and going forward—about trade-offs with operational quality (at entry and in supervision) and analytic work. In Ukraine and elsewhere, there was a lack of funding for economic studies; but not in Indonesia or Mexico, given trust funds in the former and central contingency funds in the latter.

Attention to poverty issues was greater than in previous crises. The 2008 IEG review of lessons from previous crises emphasized the importance of identifying the poverty and social impact of a crisis, including measures directed to address these impacts. The focus on poverty issues at the country level was apparent in the content of DPOs, other lending (and supplemental financing) for community-driven development projects, and analytic work on improved targeting of safety nets. At the same time, ongoing monitoring of the social and poverty effects of the crisis could be enhanced.

Fiscal and debt sustainability analysis was present in DPOs, but could have paid greater attention to macro

and political-economy risks. As required, DPO program documents examined fiscal and debt sustainability, complemented in many country programs by analytic work on public expenditures, including public investment, and poverty alleviation. The objective of maintaining public investment in infrastructure was also accompanied, in some cases, with the objective of supporting employment (through labor-intensive infrastructure) and other social objectives. But many risks to sustainability remain, in some cases related to the underlying political economy of rollbacks in fiscal stimulus and rationalizations of social security, pension, and health system benefits.

The Bank's financial sector capacity had deteriorated, with adverse consequences. Starting in 2005, the Bank had subordinated its work on the financial sector to its efforts on private sector development more generally. Subsequently, with the exception of Europe and Central Asia and Africa, units covering the financial sector were integrated within PREM. When the crisis hit, current Financial Sector Assessment Programs (FSAPs) were available for approximately one-third of client countries. The lost capacity in the financial sector proved to be costly in identifying and responding to sector vulnerabilities, as did an ill-designed 2007 strategy for the financial sector.

Photo courtesy of Eric Miller/World Bank

IFC

IFC's response was important and creative, even as its execution did not match intentions. IFC's $20 billion of investments in developing countries in fiscal 2009 and 2010 was greater than any other IFI with private sector operations over the same period. IFC also appropriately focused its response on key crisis vulnerabilities: trade, financial sector stabilization, and infrastructure. The initiatives showed some learning from past crises, in being targeted, phased, temporary (in most cases), and involving partnerships. However, IFC's added value has been less than expected, since most initiatives were not "ready for use" and IFC did not fully use its own capital.

IFC may have underestimated the challenges associated with implementing new initiatives. Obstacles included: accommodating partner preferences, building institutional capacity, demands on staff time (in the context of a hiring slowdown and large-scale internal reorganization), weak staff incentives to use the initiatives, limited ownership in the Regions, and difficult conditions for fundraising. The Global Trade Liquidity Program (GTLP) was the only new initiative able to adapt effectively to these constraints, notably through the establishment of a novel trust fund for investments and in extending relationships built up through the GTFP.

IFC's capital position was impaired by the crisis, but could have supported a moderate countercyclical response overall. In September 2008, IFC's balance sheet contained substantial unrealized equity gains, and write-downs were significant ($1 billion). Nonperforming loans were relatively low, but expected to rise. IFC had also committed to significant grants to IDA ($1.75 billion between fiscal 2008 and 2010). Nonetheless, IFC's estimate that it could invest 5 percent more per year in fiscal 2009–11 than in 2008 was conservative, given a rating agency assessment that IFC was well capitalized and experience that showed gains in investing countercyclically during a crisis. Ultimately, IFC investments fell nearly 20 percent in the first year of the crisis—well below expectation.

Most comparator institutions delivered countercyclical responses. Most other IFIs (European Bank for Reconstruction and Development, European Investment Bank, and Asian Development Bank) as well as Standard Chartered (a private financial institution focused on emerging markets) were able to increase their investments in the first year of the crisis. In Europe and Central Asia, the European Bank for Reconstruction and Development (EBRD) con-

centrated more on large-scale loans, while IFC focused on equity transactions, alongside trade finance.

At the country level, IFC did little to refocus its top-down approach. In Mexico, IFC's strategy reflected the pre-crisis preference for niche investments in upper MICs. IFC loan pricing rose substantially as a result of the crisis, as perceived country risk increased, which worked against the country team's efforts to help global leaders and first-tier companies in distress. In Indonesia, the approach was similarly cautious, and too defensive given the relatively mild impact of the crisis and the extent of external support. The exception was Georgia, where IFC provided support to two systemic banks as part of a massive IFI package to assist the country.

Meanwhile, communications to investment staff were unclear, which promoted risk aversion. Staff received mixed messages: to identify countercyclical investment opportunities, but to preserve the balance sheet at all costs. Ultimately, portfolio management crowded out new business development, which stagnated in mid fiscal 2009, notably in Europe and Central Asia.

IFC was at its most responsive in LICs. IFC's increased focus on IDA countries was sustained in the crisis period, a positive development in that IDA countries have a weaker economic base and have largely missed out on the influx of foreign capital prior to the crisis.

IFC adapted its instrument mix, but more local currency financing was needed. GTFP dominated the increase in financing, much of it to support banks in Bangladesh and Vietnam. Trade finance is a relatively low-risk pathway to reach small and medium enterprises (SMEs) in tough investment environments and requires limited capital. IFC's capacity for local currency finance was again limited, leading to gaps in addressing financing needs of medium and small enterprises.

The drop in infrastructure and agribusiness investments reflected supply and demand constraints. In infrastructure, the focus on IDA and renewable energy contributed to smaller deal size. External conditions led to some projects being cancelled or postponed. IFC nonetheless missed opportunities for impact, not least because the Infrastructure Crisis Facility was not ready to complement IFC's own account and help to address the infrastructure financing deficit in developing countries. In agribusiness, an unanticipated suspension of palm oil investments, together with a review of supply chain issues, meant lost projects. Trade finance helps agribusiness indirectly, although increases here did little more than offset the drop in IFC's direct agribusiness investments.

MIGA

MIGA's heavy focus on the financial sector in the Europe and Central Asia Region was in line with initial crisis needs. The financial sector in Europe and Central Asia was at the heart of the crisis and needed urgent assistance. MIGA supported some key financial institutions in the Region and helped keep down their borrowing costs. The drop in cancellations also meant that MIGA played a supportive crisis role with existing clients. At the same time, MIGA did not provide significant support elsewhere, and its guarantees in IDA countries and other priority areas fell. Awareness of MIGA among major private sector parties in the countries visited for this evaluation was low, indicating a need for stronger efforts at business development. And as IEG has highlighted previously, MIGA needs to streamline its business processes and improve its client responsiveness.

Early Outcomes and Risks

At this stage, the focus is on the early results relative to stated objectives: protecting vulnerable groups, maintaining infrastructure, and sustaining private sector–led growth, within an overarching focus on macroeconomic stability. Partnerships and, above all, actions taken by countries and companies, have been leading drivers of these early results.

Bank Group disbursements helped countries maintain social programs and microfinance. For example, in Colombia, the Families in Action Program expanded assistance, with Bank support, to approximately 2.7 million poor and displaced families. Similarly, in Mexico, the Bank supported Oportunidades, the national conditional cash transfer program that helps 5.8 million of the country's most vulnerable families to cope with poverty. In Bangladesh, an IDA loan was helpful in mitigating the impact of high food prices on the poor through an expansion of social safety net programs, including public works. IFC's trade initiatives have had a broad reach, supporting basic needs through food and energy trade. IFC's new microfinance facility has had a modest effect.

The Bank Group supported investments in infrastructure, but there is little early evidence of any impact. First, few of the Bank's large commitments for new investment loans have been disbursed. Meanwhile, the quality of the results frameworks for DPO support to the sector in Indonesia and Vietnam indicate risks to getting sustained results. Second, IFC's investments in infrastructure recorded one of the largest declines among all sectors, and its infrastructure facility has delivered only a handful of projects.

The Bank Group provided strong support in trade finance but missed opportunities in other areas related to private sector growth. IFC provided timely and sizable liquidity support, especially in LICs, through its trade finance platforms. But it missed opportunities for strong additionality and development impact, especially in MICs. MIGA's weak business development function was a binding constraint

on new guarantee volumes and results. The Bank provided sizable support to the financial sector, but sustainability of results may be at risk due to insufficient attention to sector reforms in some cases.

The Bank Group and partners contributed to confidence-building and macroeconomic stability, but crucial challenges remain. Indonesia illustrates the value of contingency financing led by the Bank, with participation of the Asian Development Bank, Australia, and Japan. IFC and MIGA's new private sector initiatives may initially have had positive signaling effects on markets. Experience has shown the importance of timely, visible investments by IFC in companies of systemic importance to send market signals and for development impact—a standard only a few investments met during this crisis.

The Bank Group helped authorities to think through fiscal and debt sustainability issues, but timely fiscal consolidation is still needed. The Bank's advice through DPOs, analytic work, and policy dialogue—often together with that of the IMF, and including advice given in the years leading up to this externally driven crisis—was important in managing fiscal and debt vulnerabilities. The Bank also continued to support reforms in public financial management to make the budget more transparent, predictable, and performance oriented (for example, in Mexico, Poland, and Vietnam). Especially in view of the economic uncertainties and risks, there is a need for continuing investments in analytic work.

Early Lessons

An overarching lesson emerging relates to the value of a strategic approach to the Bank Group's crisis-response effort, integrating six elements brought to the fore by this crisis experience.

First, in these uncertain times, early warning, preparedness, and timeliness, including an eye on long-term capital adequacy, are key attributes for the World Bank and IFC. Second, the benefits of the Bank's country focus go hand in hand with the need for a cross-country strategy to ensure consistency with global initiatives and to deploy scarce resources where they produce the best results. Third, even as it responds to crisis, the World Bank Group needs to keep the requisites of sustainable long-term growth—among others, fiscal and debt sustainability, the structural reform agenda, and the environmental and climate change agenda—in focus.

Fourth, particularly in averting a crisis, it is costly to let the Bank's expertise in key areas (in this case the financial sector) decline. Fifth, there is a need to balance the value of innovations and new initiatives in the middle of a crisis with continuity of support using more established and proven approaches. And sixth, coordination is needed among the World Bank, IFC and MIGA (and with other partners) to capitalize on linkages across government and business and catalyze economic activity.

The findings also point to specific early lessons for each Bank Group institution.

World Bank

Continuing Bank involvement, policy dialogue, and analytic work are important prerequisites. This is evident from the case study countries, both where the Bank response worked well, as in Indonesia, Mexico, Mauritius, and Ukraine, and where it did not, as in Hungary. It also points to the critical importance of keeping diagnostic work in key areas up to date.

The Bank should balance advocating global priorities with country ownership. The Bank's identified sector and thematic crisis-response priorities must be positioned as menus for country selection to avoid the possible impression of advocacy, especially where the Bank may be a possible financier.

Greater clarity is needed in the use of instruments for crisis response. This evaluation found that country teams used DPOs, Additional Financing, and other instruments in innovative ways, with the endorsement of the Operations Committee and approval of the Board. However, greater clarity on policy conditionality of crisis operations would have facilitated the Bank's response.

The Bank needs to anticipate crises and be ready to act quickly, taking into account quality trade-offs and considering benefits and costs across sectors.

- The Bank should continue to play a proactive role in providing early warnings and alerts to clients and the broader international community. In hindsight, an example is the value that could have been derived from sharing updates of economic forecasts for developing countries at the Annual Meetings and Development Committee Meeting of October 2008.
- The Bank's capacity in the financial sector needs to be maintained, as was also learned from the East Asian crisis. Core capacity is needed in order to maintain steadfast attention to capital adequacy; independent supervision and regulations; timely and transparent reporting; and, on investment lending, to ensuring that financial intermediaries have balanced assets and liabilities with respect to maturities and foreign exchange exposure.
- It is vital to be up-to-date on diagnostic country economic and sector work in key areas. The public expenditure review is a signature Bank contribution, especially in order to support prioritization of sector aspects of the crisis response.

- IBRD capital headroom in a crisis is central. This experience reveals the importance of anticipating capital adequacy at the outset, as well as its use during the crisis. It remains an open question whether it was best for the Bank to use up virtually all of its capital headroom in responding to the crisis. MIC demand for countercyclical lending may remain significant, but IBRD response capacity may not be large, even with the recently agreed capital increase. New instruments need to be put in place, involving shorter maturities or a combination of pricing and maturities for early payback, possibly with a countercyclical financing facility as in other multilateral development banks (MDBs).

IDA must remain the Bank's flagship resource-mobilization activity. IDA fast-tracking helped to speed the processing of eligible operations, but it was no substitute for increased resources. IDA committed 24 percent more in fiscal years 2009–10 than in fiscal 2007–08 and disbursed 15 percent more. IDA crisis financing had to be accommodated within the IDA15 resource envelope that was agreed in 2007. Though MICs have been more affected by the crisis given their greater global linkages, LICs are far less able to bear the costs of the crisis to them, and there is thus a need for greater Bank proactivity on their behalf.

Finally, it is crucial to assess emerging impacts early to identify quality problems and risks and remedial action. The evaluation identified quality risks and concerns in sector DPOs—especially in the financial sector and in infrastructure.

IFC

IFC's development role is vital, and looking beyond portfolio protection is essential. IFC will need to have sufficient resources for a significant catalytic role when the next crisis strikes and be willing to take more investment risks—as it has done in Africa. Incentives and mechanisms for increased equity divestment could also be helpful in freeing up funds for a crisis response. Active, routine portfolio stress testing can be useful, as opposed to reactive portfolio management that may crowd out new business, as in this crisis.

A crisis response has to be founded on partnerships, but cooperation needs the right incentives and support. Given the vast financing needs a crisis can generate, no single development institution is likely to have sufficient capacity to respond. Partnerships are therefore essential. In some cases, partnerships allowed for strong leveraging of IFC funds, particularly where the initiatives were not seen solely as IFC programs and where IFC's sector expertise was well recognized. In other cases, cooperation stalled due to nonaligned interests and decision-making procedures, incentive problems, and legal issues. IFC will need to be sensitive to partner needs and institutional arrangements and create incentives for them to participate fully in joint programs.

Responding to the crisis through existing platforms and partnerships has generally proved more effective than working through new ones. Experience shows the benefits of having ready financing and advisory platforms. Innovations are important, yet it is unwise to develop numerous new financing platforms on the run in a crisis, particularly platforms that are managed by third parties or involve fundraising from multiple new sources. New programs and relationships absorb time and resources that could be deployed to frontline operations.

Finding the right level of adaptation to changing circumstances is fundamental for an effective crisis response. IFC will need to find the right level of change, including determining which initiatives continue to have relevance and which might be dropped, as well as how new partnerships and platforms are best aligned with IFC's business model. In a future crisis, IFC may want to postpone rapid internal reorganization and develop mechanisms to incorporate local views and knowledge to enable differentiated responses.

The shift in IFC instruments toward trade finance guarantees was useful, but the instrument mix will need to shift again. Short-term trade finance was useful, because it could be ramped up through IFC's broad network of utilization banks. It also absorbed limited capital. As commercial providers enter the market, IFC will need to look to other instruments. Capacity to offer local currency finance was again lacking in this crisis, creating considerable risks for SME clients with local-currency revenue streams.

Monitoring and evaluation (M&E) for new programs will need to improve. The importance of robust results frameworks is magnified where new delivery structures are being created to ensure quick feedback on what is working and what is not. M&E of new initiatives will need to be made more systematic. The difficulties in measuring the development impact of the GTFP and GTLP, not covered in IFC's M&E framework, need to be addressed.

MIGA

For MIGA, the crisis has amplified the need for product flexibility and business development. MIGA's portfolio experienced a net increase during the crisis period as guarantee issuance remained at trend levels and cancellations declined, and MIGA's focus on the financial sector in the Europe and the Central Asia Region was strong. Yet globally, MIGA's crisis response was not significantly countercyclical. This reflected the inherent structural constraints of its Convention as well as weak business development. MIGA needs to revamp its business development function to reverse the current stagnation in guarantee issuance and enable the Agency to meet its business volume targets and strategic priority goals. The recent approval of the changes

to MIGA's Convention to allow greater product flexibility is an important step, and needs now to be complemented by more streamlined business processes and proactive business development efforts.

Issues Going Forward

The crisis created an immediate need for countercyclical spending in developing countries, which the Bank Group and others have supported. To help sustain the recovery, contribute to longer-term growth, and improve the response capacity of the Bank Group, attention needs to be given to two areas: policy change and organizational effectiveness. Policy issues concern fiscal sustainability, public-private synergies, financial sector reform, poverty and unemployment alleviation, and greener growth. In terms of organizational effectiveness, preparedness, managing quality trade-offs, coordination, and a strong results focus will be crucial.

Photo courtesy of Curt Carnemark/World Bank.

Policy Issues

Fiscal sustainability. Economic slowdown and fiscal expansion have pushed debts and deficits in many advanced and some developing countries to unsustainably high levels. While fiscal or monetary stimulus may still be needed in some countries, policies need to reestablish sustainable macroeconomic conditions. Growth will depend on, among other things, the quality of public expenditures, where the World Bank can be valuable—for example, through more regular Public Expenditure Reviews.

Public-private synergies. A key policy task is to ensure a smooth transition of demand from government to the private sector. At the same time, there is a widespread need to strengthen government capacities to regulate private sector activities effectively. The private sector, as the main engine of growth, will need to be supported through policies, regulation, and access to finance. These reforms should not be left for later stages of crisis response.

Financial sector reform. Financial sector weaknesses persist in the global economy and continue to pose downside risks to recovery in advanced and developing countries. There is a pressing need to shift from emergency support to addressing the structural weaknesses exposed by the crisis. This would involve repairing or strengthening financial systems while reforming prudential policies. The Bank Group can help, but it needs to rebuild its capacity.

Poverty and unemployment. As in previous crises, unemployment, one of the main causes of worsening poverty levels, has lagged GDP growth. Monitoring of the poverty and social effects in this crisis has emerged in an ad-hoc manner, and higher-frequency tracking is needed going forward. A greater focus on LICs and inequities in MICs is also required.

Environmentally sustainable growth. Climate change and environmental problems are tougher to deal with in the face of a financial crisis, yet the sustainability of global economic growth necessitates simultaneous actions. To be effective, such longer-term investments need to be factored into any crisis response: the Bank Group's strong participation in scaling up public sector spending provides a unique opportunity. The Bank Group must build on the momentum in mobilizing funds for climate change mitigation to integrate greener development in its mainstream activities.

Organizational Effectiveness

Preparedness. As crisis-related events continue to evolve, the premium on early warning, financial preparedness, and operational readiness is at an all time high. Stronger forecasting, with greater country/global connectivity, is crucial. Tools to optimize capital availability will be important, given that the capital headroom of the World Bank and IFC has been virtually used up and the recent capital increase provides only limited new headroom. From an operational standpoint, rebuilding Bank Group financial sector capacity is fundamental.

Quality trade-offs. The risk that lending preparation (to rebuild a project pipeline that has been depleted as part of the crisis response) and supervision (of a now-larger stock of cumulative commitments) may, under an essentially flat administrative budget envelope, crowd out critical analytic and advisory work—with adverse consequences for the quality of future lending—needs to be carefully managed.

Coordination. The premium on partnership and coordination is particularly high at times of market uncertainty. Moreover, financial and capacity constraints make coordination with external partners—and the focus on selected areas where the Bank Group has comparative advantage—imperative. A significant part of the Bank Group's response has taken place in the context of partnerships with the IMF, regional banks, and others, but the challenge remains to

sustain and deepen cooperation. Strong internal cooperation, to capitalize on unique linkages across public and private sector spaces, will also be important.

Focus on results. A sharp focus on results, which incorporates longer-term structural change, is critical when Bank lending is at an all-time high and concerns persist about the sustainability of the global recovery. This situation—together with the greater focus than in the past of conditionality based on a few prior actions, with country ownership—places a premium on ensuring clear and measurable objectives, M&E, and Bank Group commitment to implement corrective actions.

Management Response

Introduction

Management welcomes the opportunity to comment on IEG's initial evaluation of the response of the World Bank Group to the economic crisis. As IEG notes, it is too early to evaluate the outcomes of Bank Group support during the crisis, but management finds the Phase I evaluation useful in raising issues for attention. Management appreciates the evaluation's finding that the Bank Group's response was quick, relevant, innovative, and effective across a range of aspects that could be observed within the short period of time since the onset of the crisis and the Bank Group response. We also appreciate that the evaluation found the Bank responsive not only in scaling up countercyclical financing, but also in providing timely knowledge services through analytical support, particularly at the country level.

Evaluation Findings

Management concurs broadly with the findings of the evaluation and issues for continuing attention. We also note that this early phase of the evaluation will be further strengthened and refined with more evidence collected through completion reviews of Bank Group support instruments and country data as it becomes available. The comments below are meant to point to areas and themes on which the second phase may focus. In addition to these comments, management stands ready to provide IEG with more country- and operation-specific background and detailed factual information, which would further strengthen the final evaluation.

Organization of the Comments

Given the organization of the IEG evaluation, management comments cover the World Bank response, the IFC response, and the MIGA response in that order. The last section of management's comments cover particular country issues.

World Bank Response to the Crisis

Overall Comments on Bank Crisis Support

Management appreciates that the evaluation recognizes the Bank's effort to support client countries during this unprecedented period of economic downturn and turmoil in financial markets. Shortly after the onset of the crisis, the Bank moved to deploy its financial and analytical capacity to meet immediate financing needs of client countries, helped countries in their efforts to boost market confidence, and provided analytical support to the formulation and implementation of crisis-response policy programs. Management agrees with IEG that disbursements accelerated in fiscal 2009 and 2010, and in IBRD and IDA countries. In addition to deploying financial resources through new commitments to assist client countries in this time of need, management also placed additional emphasis on the disbursement of existing commitments. This effort was evident, in particular, in IDA countries. Bank support was aimed at protecting key expenditure priorities and programs, including investment, safety nets, and environmental management, to ensure that the country-level response was supportive to long-term development.

Trade-offs and Instruments. Cognizant of the trade-offs between responding quickly to the needs and maintaining adequate quality, management put in place several arrangements to ensure the quality of both the overall financial response and individual operations, as recognized by IEG. A Crisis Working Group was established to manage the Bank's financial response in an effective, prudent, and fair manner. The Operations Committee stepped up its oversight role so as to manage risks and enhance effectiveness, and reviewed a record number of operations. Management appreciates that the evaluation recognizes these efforts. Management notes that the evaluation acknowledges country appreciation of the flexibility of the Bank's response, creatively using the instruments at its disposal. That said, management continues to keep a close eye on the instrument issue. It discussed with the Board in January 2010 a comprehensive review of instruments; it is currently revising and updating policy in a number of areas, and is continuously monitoring the menu of instruments to identify any additional gaps in the instrument tool box.

Management Observations on Selected Issues

As stated earlier, management agrees with many of the preliminary findings of this first phase of evaluation and the questions for monitoring as the crisis response moves forward. However, there are a number of issues on which

management has observations it would like to raise. Management would hope to work closely with IEG during the next phase of its work in further clarifying these points.

Anticipating the Downturn. The evaluation states that the Bank was slow in recognizing the crisis. However, IEG does not highlight a number of internal briefings by the DEC Prospects Group before the 2008 Annual Meetings, including internal notes to senior management and the Short-Term Risk Monitoring Group. Key messages in those briefings were:

- Many developing countries would be adversely affected by the deteriorating global economic conditions—they could no longer rely on their resilience and growth dynamics.
- Private sector investment and private capital flows would be under heavy pressure, and private investment would increasingly need public sector funding, which might come with considerable delay.
- Even with a sharp downward adjustment of baseline forecasts, much worse scenarios had become plausible.

In September 2008, DEC disclosed its projection of a sharp deterioration in the world economy. In October 2008, it predicted the first contraction in world trade since 1982, while most other organizations were still forecasting strong trade growth.

Financial Sector Capacity and Response. Management concurs with many of the key findings and message of the evaluation, notably the importance of maintaining core skills and capabilities in financial sector analysis and advice, the importance of having up-to-date Financial Sector Assessment Program reports and other AAA to support financial sector lending operations, the value of carrying out crisis simulations, and with the importance of improved Bank-Fund collaboration. However, there are a number of assertions that management would ask IEG to review as its work goes forward.

The evaluation states that the policy content and results frameworks of financial sector DPOs were the weakest. This conclusion appears to be derived from the evaluation of two DPLs, Nigeria and India (see below for country-specific comments). This conclusion does not seem to take into account the financial sector work and operations in Colombia, Jordan, and Ukraine, which are evaluated as exemplary in the IEG report. Furthermore, as noted below, the assessment of the Nigeria and India operations seem to reflect information gaps and misunderstanding of the country contexts and policy contents of the programs supported by these operations. In general, much of the informal work of the Financial and Private Sector Network done as the crisis unfolded is not acknowledged.

The evaluation states that "starting in 2005, the Bank had subordinated its work on the financial sector to its efforts on private sector development more generally." However, this reading of the Financial Sector Development–Private Sector Development merger should perhaps be revisited in the next stage, drawing on the available evidence. Similarly, the report refers to "an ill-designed 2007 financial strategy" as a cause of failure to identify and respond to sector vulnerabilities without explaining what was unsatisfactory about the design of the strategy, which in fact correctly focused on building capacity to respond to emerging vulnerabilities. The financial sector strategy itself has not yet been independently evaluated.

While management agrees that there was erosion in the Bank's overall financial sector skills and capabilities, it was not across the board, and some Regions, Europe and Central Asia and Africa in particular, maintained core skills capabilities and analytical work. The report attributes the weakening of the financial sector capacity to "with the exception of Europe and Central Asia, units covering the financial sector were integrated within PREM." This is a surprising line of argument. Africa Region FPD did not integrate with PREM and continues to have an FPD director. Even in the Regions with a joint FPD-PREM director, separate FPD units remain. The first-stage evaluation does not show any evidence to indicate that the response to the crisis was better or worse based on different internal management structures.

Use of Disbursement Measures to Assess the Bank's Crisis Response. While disbursements are a compelling metric for gauging the size and effectiveness of the response, overly emphasizing it, as the evaluation tends to do, downplays the positive effects of other options, such as signaling (including deferred drawdown options), supporting market confidence, and financing key infrastructure investment projects. Consequently, management is of the view that disbursement measures are a useful metric to capture the Bank's response to immediate financing needs of its client countries, but they fall short of gauging the full impact of the Bank's crisis response. Management would ask IEG to incorporate this issue into the next phase of its work.

IFC Response to the Crisis

Overall View of IFC during the Crisis

Management appreciates the coverage in this report of the strategic situation facing IFC at the time of the crisis and the overall strategic goals of its response. Nevertheless, we feel that the report underplays the quality and significance of IFC's crisis response, by focusing too narrowly on commitment volume and downplaying the critical development impact of helping existing clients, providing trade finance, focusing on IDA, and working with other IFIs in a number of crisis initiatives.

In our view, IFC executed its crisis response and countercyclical role in a number of ways, many of which are acknowledged in the IEG report. At the onset of the crisis IFC's capital position provided the opportunity for steady to modest growth in commitments. Within this context, IFC focused on a number of concurrent areas. It worked with existing clients to support their business and maintain viability in difficult times. For new business, while many pipeline projects were postponed or canceled as the market situation changed dramatically, IFC kept its focus on IDA countries and Africa, and expanded trade finance to meet the growth in liquidity needs in the marketplace. In addition, IFC launched a broad range of crisis initiatives to mobilize capital from many organizations and address critical global needs in liquidity, banking and finance, infrastructure, and agribusiness.

The results of this effort are apparent in many dimensions, including a continued strong portfolio; strong development outcome (DOTS) results; expanded operations in IDA, Africa, and trade finance; and expanded advisory operations. In addition, fiscal 2010 commitment volume exceeded 2009 levels for both IFC own account and mobilization, and growth is expected to continue in fiscal 2011, all this in an environment where global commercial finance remains quite constrained, with private flows in 2010 well below the 2007 peak. Support for the initiatives totaled more than $11 billion in fiscal 2010, including over $6 billion from IFC's own account, $2 billion in direct support from partner governments and IFIs through IFC, and $3 billion in parallel financing arrangements. In addition, large and successful participation in regional initiatives, such as the Joint Action Program for the banking sector in Central and Eastern Europe (which pledged $24.5 billion), have been instrumental in marshaling and coordinating action to address the crisis from a wide range of players, well beyond what is accounted for in IFC's own financial accounts.

With respect to other IFIs, we have worked in concert with many of these institutions, and coordinated activities are growing. Individual institution results reflect their different regional roles in the overall financial architecture. For example, in 2009 the EBRD greatly increased funding to the Baltics and the more advanced countries in Central Europe, such as Hungary, with most of the growth in loans, as the share of equity fell from 32 percent in 2007 to 15 percent in 2009. IFC, within the Joint Action Plan for Europe, continued to focus its scarce resources on the more difficult countries to the east and on equity products, areas that have considerable potential for development impact, even though volumes could be lower.

Finally, even though we believe IFC provided a very effective response to the current crisis, we agree with IEG's point that maintenance of a greater cushion of available investment capacity, so that IFC would have more potential to rapidly expand investments in any future crisis, is an important lesson from the recent crisis experience.

Asset Management Company (AMC)

Page 64 states, regarding potential conflict of interest with partnerships—***As new partnerships develop, important risks are likely to emerge that need to be managed carefully – notably conflict of interest.*** *Separate legal entities have been created (the AMC, and entities it oversees, the IFC Capitalization Fund and the Sovereign Wealth Fund) to help reduce potential legal liabilities to IFC, and managers and staff have been hired from outside IFC. Synergies are apparent—for example, investments are originated, processed, supervised and exited through regular IFC investment operations. But there are also conflicts, real and perceived. The AMC manages and is responsible to the investors in its funds, while IFC is responsible to its Board members. While co-investment is the objective going in, divestment may take place at different times, leading to varying treatment of the same client. IFC tends to be a long-term investor, while funds generally have a more short-term perspective, which may lead to clashing objectives. Also, the funds are overseen by an entity (AMC) that has IFC's executive vice president and chief operating officer as its chair, and some managers and staff can move between the AMC and IFC, which present further potential conflicts. Challenges related to fiduciary duties and corporate governance arrangements will need to be given constant attention as AMC and IFC co-evolve."*

"[chapter 4, endnote 14] *Mechanisms to manage potential conflicts include: i) That IFC co-invests in AMC-managed funds and through joint investments; ii) the fund manager has the capacity to accept or reject an investment offer by IFC; iii) the establishment of procedures to handle conflicts of interest, including that the advisory board of each fund (comprised of third party investors only) reviews conflict of interest situations that are brought to them prior to the related fund's investment decision; iv) The AMC fund management team for each fund owes its fiduciary responsibility to the fund and is tasked with making independent investment decisions on each investment opportunity. However, these measures may together be insufficient to alleviate the perception of conflict of interest.*

Comments. The ***establishment*** of the AMC does not present a conflict of interest. Once the IFC management and Board decided to move into the private equity fund management business, the decision to form a separate legal entity to manage the funds business was a conscious one to (1) reduce possible legal liability to IFC and (2) address inherent conflicts of interest in a very transparent way.

Like each fund that has been created as a separate legal entity, AMC is also a separate legal entity. IFC's executive vice

president is chairman of the Board of Directors of AMC, but highlighting this fact alone is quite misleading. AMC has a chief executive officer and chief administrative officer who were hired from outside of the World Bank Group with specific expertise in private equity. The chief executive officer is also a director, and there are two additional directors who are not employees of either AMC or IFC. AMC's board has no decision-making role in investment decisions made by AMC-managed funds. Of the 16 professional staff at AMC as of May 2010, 8 are outside hires. They are employees of AMC and have no legal right to become staff of IFC. The remaining AMC staff have been seconded to AMC from IFC on external service via Staff Rule 5.02. The external service rules provide for a minimum secondment of two years, which is renewable for up to two additional years.

Referring to co-investments: the understanding and expectation between IFC and its funds (and the investors in those funds) is that they will invest and divest at the same time and on substantially the same terms; nevertheless, each fund generally has an independent right to exit an investment separately from IFC, which is an important right, given that IFC tends to be a long-term investor.

Presentation of Data

Net Commitments. The report in several places, particularly in the summary and on pages 37 through 39, addresses IFC activity during the crisis by looking at changes in net commitments over time. The use of net commitments is not a meaningful measure of IFC new business operations or performance. *Net commitment* is an operational measure that provides a ready reference of current legal obligations of IFC to the client relative to the original commitment, and a measure for managing client accounts and supervision. By using it as a measure of new business, however, it distorts IFC's performance in any fiscal year due to the inclusion of certain irrelevant items (for example, sales, transfers, conversions) and through the netting out of transactions that relate to different fiscal years (that is, cancellations during a fiscal year refer to commitments over several fiscal years).

Productivity. Reference is made to IFC productivity on page 61 – "*First, they [rapid organizational changes in the last few year] have created career uncertainty and presented a distraction that has negatively affected productivity.*"

Comments. IFC has proven to be a more productive organization in recent years as the growth in new business and the portfolio has outpaced growth in expenses. While productivity metrics peaked at the onset of the crisis and leveled off as the crisis unfolded and the recovery slowly commenced, figure 4.2 is misrepresentative of IFC's productivity. Including several additional years prior to 2008 would give a more balanced view, as it would illustrate the trend of improving productivity up to the peak of 2008.

Advisory Services

Analysis based on project approvals (page 39) does not offer real insight into the level or form of Advisory Services response to the crisis. The experience of Advisory Services has been varied during this period. While some projects ground to a halt, others accelerated or had one component replaced by another more tailored to crisis priorities. Others were not affected by the crisis and moved forward rapidly because of other corporate priorities (such as climate change). In addition, shifts in numbers of project approvals are driven by many factors, including launching of new multi-year cycles of multi-donor programs, most of which are organized on a regional basis. Variations in this provide no insight into crisis response.

M&E of Crisis Initiatives

The report has a number of comments on the M&E for crisis initiatives, for example, from page 67 – "***Going forward, monitoring and evaluation of the initiatives will need to be made more systematic****. Most of the new platforms were established with accompanying results frameworks, but these frameworks have focused more on funds mobilization and financial targets than on achievement of development goals. Also, where development reach targets such as IDA concentration were considered, they were sometimes left to be determined, as in the case of the bank capitalization platform. Or targets have been set at a level that was less ambitious than the targets for IFC as a whole (20 percent of projects in the case of the ICF, versus 50 percent for IFC overall).*"

Comments. All the projects under the initiatives are very much regular projects under IFC's programs but done in a more scalable way. As such, the projects would fall in line with IFC's extant M&E framework. Thus the conclusion of the report that much of the funding for the crisis initiatives would be outside the IFC M&E framework to not correct. Also, it would make sense that the emphasis at the margin is on mobilization, as that is one of the key areas of differentiation for these initiatives.

Food Prices

There is a comment on food prices on page 61 – "*Secondly, the food crisis had the effect of raising food company profitability in a few cases, thus limiting the need of larger entities for financial support from IFC.*"

Comments. IFC's experience is that food company profitability did not improve during the economic crisis or during the food crisis. While this may have been the case for some primary food (grains & rice) producers, nearly every segment IFC works with would have lower profitability because raw materials costs were higher and demand was lower due to any economic slowdown effects.

MIGA's Crisis Response

MIGA management thanks IEG for their report and welcomes the chance to comment. As the report notes, "MIGA's response to the crisis [has been] built around—but not limited to—a new global Financial Sector Initiative that [has] focused initially on Europe and Central Asia." Indeed, this has been a significant part of MIGA's overall business during the past two fiscal years, 2009 and 2010. As the financial crisis took hold, MIGA witnessed many of the more traditional projects that the Agency follows come under severe pressure, as financing quickly became difficult to obtain and attitudes toward taking risk hardened drastically. As a consequence, while MIGA entered fiscal 2009 with a robust and well-diversified pipeline of prospective new business, building on a record-setting year in fiscal 2008, by mid-2009 the Agency was faced with a very different situation, with almost all in-development projects either having being placed on hold or canceled outright.

Management would argue that MIGA actually played an important *counter*-cyclical role. The deteriorating economic environment brought forward demand for MIGA from Western European banks facing mounting problems maintaining their subsidiaries in developing countries in the Europe and Central Asia Region. MIGA's operational priorities, as laid out in its corporate strategy, call for the Agency to leverage its comparative advantages by being a market leader in frontier destinations where other political risk providers are less suited to operate. In more stable economic times, this typically equates to the IDA countries. When the financial crisis hit however, it represented a redefinition of the frontier aspect of the marketplace. MIGA was able to be effective in the Europe and Central Asia Region for the same reasons it is customarily effective in IDA countries – (i) it is able to provide longer-term coverage and (ii) MIGA's guarantees are backed by not just the weight of the World Bank Group name but also by MIGA's exceptionally strong balance sheet. MIGA has therefore been extremely well positioned to play a leading role in responding to the crisis.

The Financial Sector Initiative (FSI) provided a well thought through framework for being responsive in a consistent and disciplined manner while managing the heightened risks carefully and efficiently. It was important going into the response to have a process for ensuring that MIGA maintained its view on the overall picture as well as on individual projects coming through the underwriting system. This has been important not simply for management, but also for MIGA's Board in order to be confident that risks were being comprehensively assessed and that capacity was being prudently managed and shared.

As of the first quarter of fiscal 2011, MIGA has provided 11 guarantees to 8 different banks seeking recapitalization from the Group parent in five different eastern European countries under the FSI, representing close to $1.5 billion in gross guarantee coverage. MIGA has also provided support to two additional banks in the Europe and Central Asia Region over this time period that did not fall under the FSI, representing a further $145 million in gross cover. The IEG report focuses on the figure of 'up to $1 billion' in *net* guarantees that MIGA committed to provide to Europe and Central Asia through the FSI—however, the more important figure to emphasize is in fact the $2–3 billion in *gross* coverage that MIGA announced publicly it would provide, which draws on the Agency's ability to arrange reinsurance. Indeed, of the nearly $1.5 billion in gross coverage issued, MIGA has reinsured 44 percent. This is capacity that almost certainly would not have been available at the prevailing terms unless MIGA was fronting the deal.

Considerable efforts have been undertaken by MIGA to strengthen business origination in the past 18 months. The report remarks that, "[a]s recognized before the crisis, but even more urgent now, MIGA needs to revamp and refocus its business development activities." Management would agree that historically developing new business has been challenging for MIGA. This is in some respects an outcome of the fact that MIGA's business is entirely demand-driven—MIGA is never in a position to be able to *initiate* a project. However, it is worth noting here that considerable efforts have been undertaken to address this problem, including many in the past 18 months. There has been a considerable strengthening of MIGA's sectoral approach, including the hiring 18 months ago of experienced sector team leaders and the recruitment of new staff to fill key underwriting positions. Recognizing though that one of MIGA's constraints is its small size and the lack of a field network to conduct continuous outreach to prospective clients, a number of important steps have been taken, including: first, in fiscal 2010 MIGA introduced an Agents and Finders program, aimed at creating an external network that is incentivized (on a success-fee basis) to bring forward projects for MIGA's consideration; second, MIGA has entered into an agreement with IFC to leverage IFC's global network of staff and client contacts to help identify new business opportunities for MIGA; and third, in fiscal 2011, MIGA has put in place a small but experienced team of staff in Asia to establish a presence in that region where the market for political risk insurance is growing, and yet historically MIGA has had a difficult time getting traction, in large part due to the constraints to building relationships resulting from physical distance.

As a result of these efforts, MIGA's pipeline of prospective new business today is considerably healthier than it has been at any time since fiscal 2008. The projects under con-

sideration are well diversified in terms of sector, regional destination and size, and MIGA anticipates that this fiscal year will see year-on-year growth in new issuance. It is important to note though that there is consistently a lag between when the time when MIGA begins discussions with a client and the actual closing of a deal of, on average, approximately 18 months. And for infrastructure projects—an area of strategic focus for MIGA—this lead time is considerably longer. So it is important to emphasize that the marketing and outreach efforts of today will not yield immediate results.

MIGA has taken notable steps to extend its product line. The report also notes that, "For MIGA, the crisis has amplified the need for more product flexibility and enhancement of business development." While agreeing with the sentiment that MIGA needs to constantly monitor its product offerings in order to maintain its relevance and be in a position to add value for prospective clients, it is important to highlight here the notable gains that have been made in recent months. Following the amendments made to MIGA's Convention and Operational Regulations, MIGA now has the ability to provide a range of new coverages, including the Non-honoring of a Sovereign Financial Guarantee, Temporary Business interruption, and stand alone debt. MIGA also has increased scope to support coverage on existing assets and to support investments relating to state-owned enterprises operating on a commercial basis.

The past 18 months have seen a comprehensive internal review of MIGA's business processes that has led to notable changes aimed at speeding up processes. The IEG report notes that, "to improve its capacity to respond, MIGA also needs to address several other internal constraints, including simplifying cumbersome business processes." Again, while management would agree that simplifying business processes is important, it is also necessary to underscore the work that has been conducted on this front. One of the most important elements has been a streamlining of internal approval processes to reduce processing costs and overall turnaround time. In addition, many of the changes that have been made over the past 18 months to MIGA's Operational Regulations (April 2009) and the pending amendments to MIGA's Convention (which go into effect in November 2010) are aimed at alleviating suboptimal process requirements. In addition, MIGA has made major investments in its information systems technology, most notably introducing a new Guarantees Database system at the end of fiscal 2010, which will bring considerable benefit to the Agency in terms of being able to underwrite more efficiently, as well as strengthening MIGA's documentation and record-keeping capabilities and practices.

At the same time, even while MIGA strives to operate efficiently and minimize unproductive procedural steps, it is important to realize that processes are important, and that MIGA's are inevitably going to be more rigorous and lengthier than those of most other political risk insurance providers in the market simply due to the fact that MIGA is a development institution. MIGA has to be satisfied that projects under consideration meet the higher standards of the World Bank Group, and this is something that most clients are aware of going into a dialogue with the Agency.

MIGA has paid five claims in its history; however only one could be said to have occurred during a crisis. In the section of the report titled "*Lessons from Past Crises,*" it is noted that MIGA's risk-mitigation capacity "was tested by past crises, during which two of the three claims in MIGA's entire history were paid. Political risk—the mitigation of which is MIGA's mandate—is often heightened during crises, and infrastructure projects that are inadequately structured or awarded in a nontransparent manner were particularly vulnerable to political risk events." In fact, MIGA has paid five claims in its history, **however** only one—a claim in Argentina for events that occurred in fiscal 2002—could be said to have occurred during a crisis: hardly enough to draw general lessons. Of the other four, three were claims made under MIGA's war and civil disturbance coverage (in Kenya, Madagascar, and Nepal) and one (Indonesia) was the result of a contract cancellation under expropriation coverage following a regime change.

Country Comments

As IEG undertakes the more comprehensive second-phase evaluation of the World Bank Group crisis response, Bank Group management would ask that it take into account additional information regarding a number of findings of this preliminary evaluation regarding the quality and effectiveness of support to specific countries, and notably support to the financial sector. Some of the issues raised may be related to the fairly limited quality-at-entry methodology used by IEG, which focused on the quality of the results matrices of the operations evaluated. Based on this analysis, it is premature to conclude that there might have been compromises in quality. We hope that the following country-specific information provides useful input for the next phase of the evaluation.

Brazil

Bank management believes that further information would result in a different conclusion than that in table 4.1, page 50 of the IEG evaluation, where it is stated that the results frameworks for the selected Brazil DPOs display "weak realism on core environment issues." In particular, management does not see the federal environmental management focus as weak on core environmental issues. The program supported by the Sustainable Environmental Management (SEM) DPL embodies concerted efforts by the government

to strengthen environmental management on deforestation, climate change, and water resources (as clearly reflected in the result framework of this DPL series). These efforts include long-term planning supporting Brazil's efforts to undertake a transformational change and achieve a balance between command and control measures and initiatives that promote good environmental practice through incentives. Management believes that a more careful consideration of the results framework put together by the Brazilian authorities for the SEM DPL will show clearly that the SEM DPL program is strong on environmental issues.

Europe and Central Asia Countries

On page 61 there is a discussion of IFC's investment approach in a number of countries, with a specific reference to the Europe and Central Asia Region – "However, *communications to the field were also not clear: messages about IFC's countercyclical role were combined with signals to limit new lending, protect the portfolio, and focus on the new initiatives as source of new capital. It took some time for new business development, especially in ECA, to be restored.*" In the case of IFC's activities in Central and Eastern Europe, business development slowed down because business in general practically stopped, rather than due to reasons cited above. The companies postponed or canceled their expansion plans, large infrastructure projects were put on hold; the banks were assessing their non-performing loan levels and conducting stress testing. The overall environment at the peak of the crisis was not conducive to new business. Nevertheless, even under these circumstances, IFC invested $1 billion in Central and Eastern Europe in fiscal 2009, and more than $1.45 billion in fiscal 2010, which represents IFC's highest volume ever in Central and Eastern Europe.

Hungary

Bank management would like to provide additional information regarding the IEG assessment of Bank support to Hungary. The slowness in response (because of the loan pricing issue) should be considered separately from the quality and design of the operation. The Hungary DPL was carefully designed and contained several best practice results-monitoring indicators (as confirmed in the IEG evaluation). The quality of the in-depth analysis was commended at the Board discussions, and the borrower implemented all the policy measures laid out in the Program Document. The banking components included high-quality, innovative financial regulations to tackle the crisis and were supported by in-depth AAA/sector analysis discussed in the Program Document and which counted on the same team that had worked since 2005 on the FSAP and financial and pension reforms. Bank assistance added value above and beyond the IMF/EU reforms and supported strong reform actions completed in the pension and banking areas. Collaboration with the IMF was outstanding and there were no issues of friction.

India

Box 4.4 in the IEG evaluation acknowledges the comprehensive nature of the Indian response and Bank support to the crisis. However, management believes that important additional information is available regarding the Banking Sector Support Loan. The government's economic stimulus program, which contained a number of fiscal, monetary, trade, and financial measures, included a plan to provide additional capital to these banks. This was to enable banks to maintain credit growth at levels that would support desirable rates of economic activity, employment, and inclusion, as lending by foreign banks registered absolute reductions while domestic private banks sharply reduced the growth of their lending. However, the operation was not a bank recapitalization loan. It provided general budget financing to the Indian government for its overall economic stimulus program and against a set of policy and institutional actions. It did not specify the use of the proceeds of the DPL for capital injections into public sector banks. Because of strong prior work, the operation was able to draw on a well-developed financial sector reform program, which was endorsed by the IMF and the Bank, described in the FSAP Self-Assessment, and supported by other existing AAA.

Indonesia

There is discussion of IFC operations in Indonesia on page 59 – "*The approach in Indonesia was similar [to the one in Mexico]. Here, non-performing loans were reduced to less than 1 percent, as they were in Mexico, but new investments fell by more than a quarter between FY08 and FY09.*" One important explanation for the results in this region is that clients in many cases did not have large financing needs. Apart from a few months where dollar financing was difficult, liquidity was adequate to support the crisis period since exports declined, which limited working capital requirements and market uncertainty limited investment in capital expenditures.

Mexico

Management would ask IEG to also take into account in the next round additional information concerning the World Bank loan to Mexico's Sociedad Hipotecaria Federal (SHF). The report states that the loan "repeats the problems of past financial sector loans." Management notes that the structure and purpose of the loan are substantially different from previous operations. While SHF does lend to other institutions, the Mexico SHF loan is not a standard financial intermediation (credit line) operation. Indeed, the loan was designed with the lessons of previous IEG evaluations firmly in mind, including problems of slow disbursement of credit lines, the doubtful demand for the funds in the private sector, and the need for strong institutions. The difference in structure of the SHF loan goes beyond just an alternative disbursement mechanism. The increased financial capacity of SHF is to

be used for expanding credit for well-established loan products. The philosophy is to support a development bank that has a clearly defined market development role, but which is also serving a market stabilization function during the crisis, while supporting it in advancing into new areas of market development following the crisis.

IFC performance in Mexico is also mentioned in the report, particularly on page 59, "*In Mexico the corporate focus on portfolio protection and high selectivity in new investments, together with substantially increased pricing during the crisis period worked against the country team's efforts to support top-tier companies and global leaders in distress, as well as healthy medium-size companies looking for equity.*" In Mexico, the reduction in commitments between fiscal years 2007 and 2009 was due in part to a conscious effort to increase activity in Central America, and particularly in IDA countries, Honduras, and Nicaragua. Central America, with a similar strong dependence on the U.S. economy as Mexico, was hit hard by the crisis. Increasing IFC staff resources for Mexico would have come at the expense of Central American countries. While higher prices were not favorable for crisis moments, IFC was one of the few institutions willing to go long-term in several countries, and in fact had several deals in the region, where under normal times, clients would have gone to the market. In addition, fiscal 2010 commitments in Mexico are the highest in the last five years. While it is true that commitments in Mexico dropped by 65 percent between fiscal 2007 and 2009, commitments in Central America increased more than tenfold. Overall, commitments in Mexico and Central America almost tripled between fiscal 2007 and 2009. While there was demand for IFC's services in Mexico, we focused our resources where we believed we would have a stronger development impact.

Nigeria

IEG reasons that the Nigeria DPO "*did not address the on-going deterioration of the banking sector. The Bank had more limited operational engagement in the financial sector in Nigeria than in Indonesia, although staff had maintained an active dialogue with the Central Bank of Nigeria, focused on several issues related to credit and portfolio quality and banking supervision and regulation.*" It later states that "*early indications based on quality-at-entry considerations raise questions about likely results, and in some cases point to major risks, for Bank-supported financial sector reforms… the Nigerian financial sector DPO focused more narrowly on international financial reporting standards and risk-based supervision when the country's financial system was under serious threat of a financial crisis.*"

Management would ask IEG to take into consideration in the next round the analytical work undertaken by the Bank in recent years, as well as policy recommendations and the measures implemented by the Central Bank of Nigeria during that period. As early as January 2008—as part of ongoing diagnostic work in relation to the Nigerian Financial System Strategy 2020—the Bank drew attention to looming imbalances in the Nigerian financial system and highlighted a number of reform priorities, the first of which were to "monitor banks' investment in equities both on their own balance sheet and on those of their subsidiaries" and to "introduce consolidated banking supervision." In subsequent months the Bank did indeed highlight a number of serious deficiencies in bank accounting, reporting, and disclosure, and, realizing the urgency of the situation, the Bank recommended that a thorough "health-check" of the banking system be undertaken by international auditors.

In conducting the policy dialogue and preparing the Nigeria DPO, the Bank focused on the need for structural reform in bank reporting and accounting practices and strengthened supervision rather than providing funding to support bank recapitalization. In doing so, the Bank was following advice espoused by the IEG's own evaluation of the Bank's financial sector work. The Central Bank of Nigeria did indeed act on the advice the Bank had provided almost a year earlier. Prior to the Board discussion of the DPO, the Central Bank initiated special audits of the first batch of 10 (of 24) Nigerian banks and identified significant liquidity and solvency risks in 9 of the banks. Based on these findings, the Central Bank took immediate and decisive action against the banks' managers, shareholders, and delinquent debtors. The authorities have also moved forward to establish a robust legal and regulatory framework in the form of the Asset Management Corporation of Nigeria to resolve the situation of the troubled banks.

Chairperson's Comments: Committee on Development Effectiveness (CODE)

On September 27, 2010, the Committee on Development Effectiveness (CODE) considered the report, *The World Bank Group's Response to the Global Economic Crisis Phase I,* prepared by the Independent Evaluation Group (IEG), and the Draft Management Comments.

Summary

The Committee welcomed the Phase I IEG "real time" evaluation, which assessed the World Bank Group response to the crisis, focusing on developments since 2008, and draft Management Comments. While noting that IEG findings are early in nature, and will be followed up by more in-depth analysis as more data become available, the evaluation generated an interesting discussion on a number of issues for close watch going forward. Members stressed the importance of drawing early lessons, including those on crisis prevention, the countercyclical role of the World Bank Group, and adequacy of instruments and analytical and advisory services, as well as the Bank's graduation policy. They also commented on the need to prioritize the Bank Group interventions and to strengthen coordination within the Bank Group and with other development partners.

Members highlighted the need to integrate Bank Group crisis support with a medium- and long-term development perspective and a focus on poverty reduction and to consider the impact of new initiatives in the crisis context, given the specific targets of these initiatives and their complementarity to existing established programs. They commented on the relevance of the crisis response evaluation from both policy response and organizational effectiveness aspects, and in terms of preparedness and timeliness of response, while taking into account the financial adequacy of Bank Group and client institutional capacity. There were also questions on how to create new opportunities for crisis response under the current staff incentives and matrix structure, flat budget constraints, and the ongoing decentralization initiative.

Members underlined the need to capitalize on linkages between public and private sector support; consider qualitative and quantitative aspects of the Bank Group response; track the quality-at-entry of investment lending; and enhance the results framework and monitoring and evaluation capacity. Looking forward, members stressed the importance of considering the financial headroom of the Bank Group to engage with different categories of clients (for example, MICs) and continuing support to core sectors, including to maintain the Bank's capacity in the financial sector as one of the pillars of the post-crisis directions.

Recommendations and Next Steps

The Committee recommended a full Board discussion of the IEG report and Management Comments given the relevance of the early lessons to be drawn.

Some suggestions for the Phase II report were to build on the preliminary outcomes of Phase I activities and add country data and operational results from Implementation Completion Reports; present data on disbursement and commitments by countries and Regions; assess the impact of front-loading IDA resources; and focus on the results framework of crisis response actions. IEG acknowledged the problem of the recent discontinuation of a tracking system for the quality-at-entry of projects in the early phase of implementation; inputs on the issue will be sought at the upcoming Board discussion.

Main Issues Discussed

IEG Report. There were questions on whether there was feedback from client countries and from other IFIs and how to assess the Bank's performance in its role as a knowledge broker in the context of the crisis. Some members noted important aspects of the crisis response that deserve further IEG analysis, including the quality of policy advice and investment lending operations, and, above all, additional financing, signals to the market (for example, through DPLs and DDOs), the complex tradeoff between counter-cyclicality and long-term development challenges, and the response of IDA. On the last, the need for a more evidence-based and quantitative analysis about its possible constraints was stressed, also with a view to informing the

IDA16 replenishment discussion. One member objected to the description in the report of the implementation of one of IFC's new initiatives.

Country Focus. Questions were raised about how the need for crisis response was balanced with support for stronger social safety nets, and whether the Bank's response to the crisis was tailored to address countries' specific needs based on the quality of their institutions or level of development. In its evaluation, IEG found that given the information available in many countries, by design, crisis response programs were usually pro-poor. Management noted that the Bank Group assistance was supported by existing country knowledge and strong partnership.

Graduation Policy. It was noted that the Bank's response and its countercyclical role should be defined with some clarity relative to its graduation policy. It was proposed that the Bank's continuous engagement with graduated countries (cases of Hungary and Latvia) should be considered in future graduation policy discussions.

Instruments. Several speakers noted the IEG recommendation that a wider array of instruments, including more crisis-tailored shorter-maturities instruments, would have helped in the crisis response. Some speakers suggested that a new instrument for countercyclical financing should be considered in the context of the review of all instruments, and one expressed the view that it might have higher pricing. Other speakers noted that this was not the appropriate setting for the discussion of pricing. A question was raised on how to address preparedness and readiness of new instruments, including contingency lines that clients may not be willing to demand to avoid signaling vulnerability to the market.

Organizational Issues. There were questions on whether the current staff incentives and matrix structure create opportunities to improve the Bank's efficiency and effectiveness and whether due attention is being paid to the quality of field service and presence in the context of the ongoing decentralization initiative in the Bank and IFC.

Giovanni Majnoni, Chairman

Chapter 1

In the past two years, the world has faced its most severe economic crisis in living memory, a trial that has threatened to set back years of progress on growth, job creation, and poverty reduction in developing countries. Though the crisis began in the financial sector in the developed world in mid-2008, it spread quickly to many developing countries, particularly affecting the countries most connected to the global economy through the channels of trade, investment, and worker remittances.

Photo courtesy of Curt Carnemark/World Bank.

Introduction

Objectives

In the past two years, the world has faced its most severe economic crisis in living memory, a trial that has threatened to set back years of progress on growth, job creation, and poverty reduction in developing countries. Though the crisis began in the financial sector in the developed world in mid-2008, it spread quickly to many developing countries, particularly affecting the countries most connected to the global economy through the channels of trade, investment, and worker remittances.

The World Bank Group is responding to this crisis through various means: increased lending by the World Bank, particularly through the International Bank for Reconstruction and Development (IBRD); crisis-response initiatives by the International Finance Corporation (IFC) in trade finance, infrastructure, bank capitalization, microfinance, distressed asset management, and advisory services; and a Multilateral Investment Guarantee Agency (MIGA) global financial sector initiative. Together, these actions are expected to exceed $100 billion in additional finance to developing countries by the end of fiscal 2011.

The purpose of this ongoing evaluation is to review and assess the Bank Group response to the crisis, focusing on developments since mid-2008, and to draw lessons to enhance the impact of continued actions by the Bank Group and others. The evaluation is being carried out jointly across all three IEG units (World Bank, IFC, and MIGA) to provide a comprehensive perspective on the World Bank Group response. Evaluation work is taking place over a two-year period, and findings will be presented in two main reports, of which this is the first.

The evaluation provides real-time feedback[1] aimed at improving ongoing crisis-response efforts, while also providing accountability for activities carried out to date and helping prepare for future crises. It builds on, and follows, a 2008 Independent Evaluation Group (IEG) report examining lessons of Bank Group interventions during past crisis episodes (IEG 2008a).

This evaluation report summarizes findings from portfolio reviews for each Bank Group institution, background papers on the crisis and the crisis response, and detailed reviews of the Bank Group response in 11 country case studies. IEG has already provided initial evaluation findings to Bank Group executive directors and management through several informal communications: a note summarizing progress with the evaluation work at the time of the October 2009 Annual Meetings, an *Evaluation Brief* in November 2009 that was discussed in the Committee on Development Effectiveness (CODE) in January 2010 (IEG 2009c), and a further progress note for the Spring 2010 Meetings.

The detailed objectives, evaluation questions, and methodology for the evaluation were set out in the Approach Paper submitted to CODE in September 2009 (IEG 2009a). The issues addressed in this first report are: preparedness in terms of economic analysis and strategic readiness, relevance of the response, quality of implementation, and early outcomes and prospects. At this early stage, it is not possible to fully evaluate outcomes and impacts. The discussion of outcomes and impacts will be expanded (and possibly revised) in the second evaluation report, in 2011.

The effectiveness of the Bank Group's response to this crisis is assessed with reference to various benchmarks, including: Bank Group performance before this crisis (including during past crises); Board and management expectations of the Bank Group's activities, role, and impact in this crisis; country and sectoral crisis needs; and the response of other international financial institutions (IFIs) (plus commercial investors in the case of IFC and MIGA).

Evaluation Issues and Questions

In line with the key evaluative questions listed in the Approach Paper, this report addresses, to the extent possible at this time, the following issues:

- **Preparedness**
  - **Economic analysis:** Did the Bank Group's forecasts (in global reports and country analyses) anticipate the crisis or some variation of it?

- **Strategic readiness:** Did the Bank Group have in place, or was it in a position to quickly mobilize, the requisite knowledge, staffing, budget resources, and financing to respond quickly to client needs?

- **Relevance**
  - **Needs assessment:** How well have the needs of crisis-affected countries been assessed (and were they reassessed as the crisis unfolded)? Have vulnerabilities been adequately mapped to actions the Bank Group could take? Has the Bank operational model, based on country strategies and country demand, taken into account the differential abilities of countries to assess their needs and prepare requests for assistance?
  - **Resource allocation:** Was the focus of the response on the countries and clients most in need of support (that is, those most affected by the crisis and with the greatest financing gaps)? What have been the relative roles of country demand and the Bank's assessment of country needs and desirable resource allocation (supply aspects)?
  - **Choice of instruments:** Have the existing and newly established instruments and platforms been relevant to the needs? How have credit enhancement mechanisms been used in responding to the crisis?
  - **Focus on poverty impact:** To what extent did the Bank Group response maintain a strong focus on poverty reduction and the most vulnerable?
  - **Focus on infrastructure:** To what extent have long-term infrastructure programs been protected?
  - **Role of the Bank Group in the international aid architecture:** Were the Bank Group's actions complementary to those of others, including governments, other IFIs, and the private sector? Were the actions consistent with the Bank Group's comparative advantage? Given the size of Bank Group financing relative to the overall financing gap, did the Bank Group effectively leverage its role for maximum relevance?

- **Implementation**
  - **Speed:** Was the Bank Group able to carry out crisis-related interventions in a timely and effective manner? Is the Bank Group appropriately handling any tensions between speed and quality?
  - **Financial capacity:** To what extent did financial capacity constraints affect the size, composition, and implementation of the Bank Group response?
  - **Partnerships and coordination:** How effective was the coordination among key partners? Did country governments have sufficient "ownership" of Bank Group programs and initiatives?
  - **Internal organization:** How did operational guidelines, policies, and procedures affect the degree of preparedness, intersector and interunit coordination, timeliness of response, and appropriateness of instruments? What other internal factors, formal or informal, supported or impinged on implementation?
  - **Monitoring and evaluation:** Did the Bank Group establish clear results targets for its response and systems to monitor implementation speed and quality? Are adequate learning mechanisms in place to provide feedback and enhance results?

- **Early Outcomes and Prospects**
  - **Meeting objectives:** Are the Bank Group's objectives for the crisis response on track to be achieved?
  - **Effectiveness of instruments:** How effective have particular delivery mechanisms been (main programs across the Bank Group units)?
  - **Additionality:** Are clients and stakeholders satisfied with the quality and timeliness of Bank Group contributions? Did the Bank Group provide services that clients would otherwise not have received?
  - **Debt sustainability:** Are country debt burdens sustainable? To what extent did the Bank Group consider country absorptive capacity and future debt-service capacity?
  - **Indirect effects:** Is the response having any unintended consequences? Is the response likely to have a material impact on the global aid architecture?

Methodology

Methodological Approach

This real-time evaluation of the Bank Group response to the global economic crisis is similar in most respects to other IEG evaluations, except for its timing. As is normally

the case, the evaluation uses a mixed-methods approach. It combines literature and document review, semi-structured and in-depth interviews, surveys, program and project analyses, and country case studies. It also examines performance against stated Bank Group objectives (at the global, program, country, and operation levels), using IEG's normal evaluation criteria.

The evaluation relies on evidence from ex-post assessments of completed activities. For example, the preparedness of the Bank Group was examined based on actions the Bank Group took leading up to September 2008, when the financial crisis in advanced economies became a global crisis. Similarly, the relevance of Bank Group objectives is assessed in relation to country needs at the time the objectives were established. In each case, the quality of Bank Group action can be compared with responses to past crisis episodes, to actions in non-crisis periods, and to interventions by other IFIs in reaction to the crisis.

The ongoing evaluation has involved preparation of background evaluations of specific components of the crisis response (for example, on specific programs, countries, or operations) and has relied on other freestanding evaluations of relevant activities, much as sector evaluations use findings from project evaluations in the sector, and country assistance evaluations use findings from a variety of individual evaluations for a country.

The main difference in this evaluation is in its timing. Given the importance of the issues addressed and the need for timely feedback to the Bank Group's executive directors and management, the evaluation started during implementation of the activities being evaluated, but about one year after the first responses to the crisis were introduced. This means that the evaluation and its subject matter (objectives, instruments, delivery mechanisms, outputs, and outcomes) are evolving simultaneously.

The evaluation is thus, to some extent, formative in its early phase. Its intention is to help improve program performance by informing decisions about relevant programs and their component parts and processes.[2] Examples of formative evaluation work carried out by other organizations include the U.S. Government Accountability Office's ongoing bimonthly reviews of progress with the U.S. stimulus plan (U.S GAO 2009) and the U.K. National Audit Office's evaluation of progress with the London Underground Public-Private Partnership arrangements, 1 year into the 30-year contracts (U.K. National Audit Office 2004). The evaluation remains firmly evidence-based, while focusing more on outputs and outcomes than on impacts.

Global and Country-Level Evaluation

While the crisis has been global, countries experienced different circumstances and challenges, and responses by development institutions had to be country-specific and tailored to these challenges. Thus, the ongoing evaluation assesses both the global and country-level aspects of the World Bank Group's response.

Global Response. At the global level, the evaluation considers, first, the level of *preparedness* of the Bank Group and the *relevance* of specific programs and initiatives introduced or expanded in response to the crisis. The relevance of the programs—and of the overall Bank Group response—is evaluated in the context of the Bank Group's role in the international aid architecture. The evaluation then assesses *implementation;* that is, progress in the delivery of these programs and initiatives, including lending and knowledge-based activities, in relation to the established objectives. Some aspects of this progress have already been reported in the previous two informal reports (IEG 2008a, 2009c), and additional information and assessments are included in this (formal) report. Implementation continues, however, and a more complete assessment of progress will be presented in the next formal report.

The assessment of implementation looks into each of the operational components of the response (across the World Bank, IFC, and MIGA) and evaluates them separately, as well as considering issues of coordination across the Bank Group. Cooperation with the International Monetary Fund (IMF) and regional development banks is also assessed and, to the extent possible, the evaluation incorporates the views of these partners on the Bank Group response, as well as the views of country stakeholders.

Country-Level Responses. Country-specific responses are assessed selectively, based on several criteria, including impact of the crisis and/or importance of the Bank Group response (in terms of impact or resources invested pre- and post-crisis). A broad mix of country types is covered (middle-income countries, lower-income countries, and fragile states), including countries where the Bank Group response included a range of instruments to achieve a broad coverage of all available instruments, and countries with early Bank Group interventions in response to the crisis, to maximize the availability of evaluative evidence (although evaluation of "late responses" will also be important to assess the evolution in the responses to the crisis). Although the lending increase was initially largely directed to middle-income countries, the selection also includes International Development Association (IDA) countries.

Based on the above criteria, the first stage of the evaluation has already included the preparation of country notes for 11 countries, including IEG staff visits.[3] The next stage may include additional country-level work. The findings from the 11 country notes have been incorporated in the relevant sections of chapters 3 and 4 of this report.

Chapter 2

Photo courtesy of Yosef Hadar/World Bank.

In the three years since 2007, the world economy has been hit by a series of overlapping crises. The first was financial: an apparently local crisis in the subprime mortgage market in the United States. This gradually extended to the financial sectors of other developed countries, and then turned into a global financial crisis. This, in turn, generated a global economic crisis, which affected most countries, both developed and developing, with varying degrees of intensity.

The Global Crisis and Its Impact on Developing Countries

Overview

In the three years since 2007, the world economy has been hit by a series of overlapping crises (figure 2.1). The first was financial: an apparently local crisis in the subprime mortgage market in the United States. This gradually extended to the financial sectors of other developed countries, and then turned into a global financial crisis. This, in turn, generated a global economic crisis, which affected most countries, both developed and developing, with varying degrees of intensity.

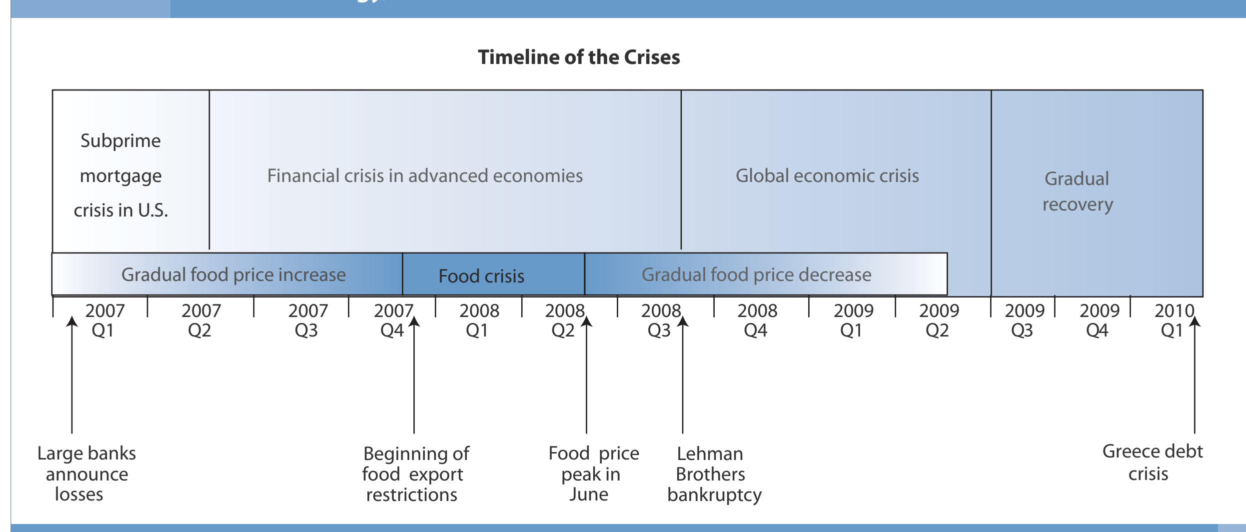
Prior to the financial crisis, and partly in parallel with it, there was a period of global food and fuel price increases. These price increases worsened the subsequent recessionary impact of the financial collapse. The combined effect of these events—in social and economic terms—has been widely assessed as the most serious and potentially devastating that the world has experienced since the Great Depression.

Globalization of the U.S. Financial Crisis

The real estate and subprime lending crisis in the United States deepened into a financial crisis in the advanced economies in mid-2007. The loss of investor confidence in the value of securitized mortgages revealed itself in August 2007, as leading Wall Street firms such as Bear Stearns, Merrill Lynch, JP Morgan Chase, Citigroup, and Goldman Sachs reported major losses.[1] Economic activity slowed as credit conditions tightened, and advanced economies fell into mild recession by mid-2008. Emerging and developing economies continued to grow at fairly robust rates, because they had limited exposure to the U.S. subprime market. However, despite policymakers' efforts to sustain market liquidity and capitalization, concerns about losses from bad assets continued to raise questions about the solvency and funding of core financial institutions with global reach.

The situation deteriorated rapidly and escalated into a global economic crisis in September 2008, following dramatic collapses in the financial market. Large losses in the

FIGURE 2.1 Crisis Chronology, 2007–10



banking and financial sectors resulted in a liquidity crisis that rippled across the Atlantic through financial channels. Stock markets worldwide tumbled and entered a period of high volatility, and numerous banks, mortgage lenders, and insurance companies failed in the following weeks. To avoid a complete meltdown, the United States Federal Reserve, the Bank of England, and the European Central Bank injected substantial capital into financial markets.

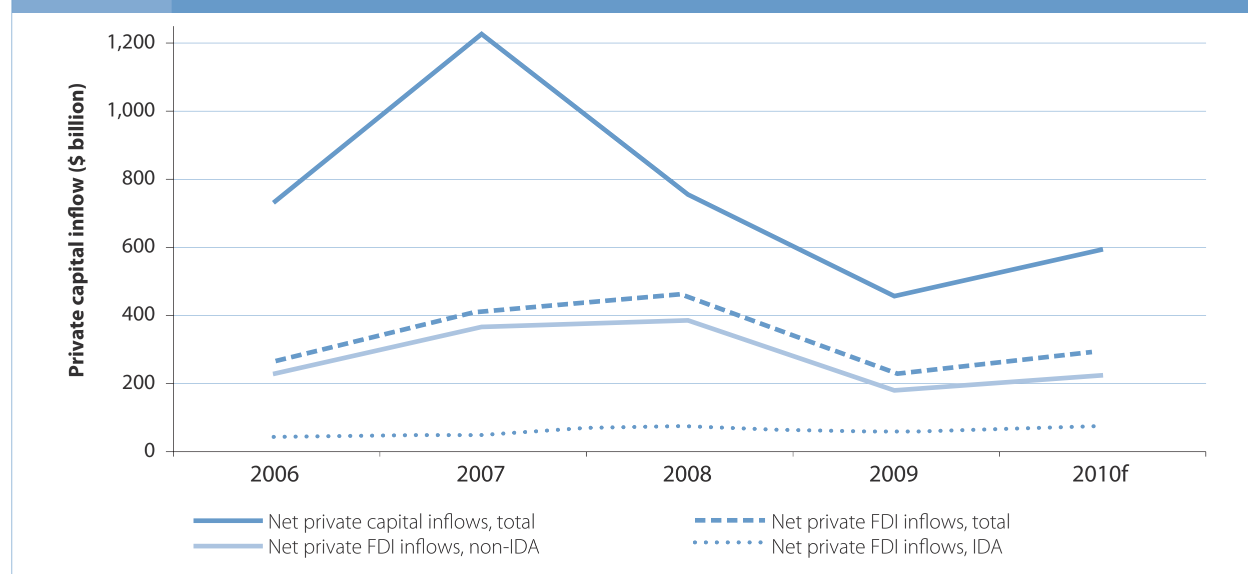
Overlapping with the transformation from the initial U.S. financial crisis to the global economic crisis was a major increase in food prices, higher energy prices, and a blockage in global trade. Triggered by declining global stocks of many food commodities, the food price index peaked in June 2008, but gradually dropped as the global economic crisis unfolded in the third quarter of 2008. Energy prices also fell back as the crisis took hold. While food prices in world markets have generally continued to decline, domestic prices in developing countries have eased more slowly, and in some cases have recently increased. The dangerous mix of the global economic slowdown and stubbornly high food prices in many countries has pushed an estimated 100 million people into undernourishment and poverty (Tiwari and Zaman 2010).

Impact of the Crisis on Developing Countries

Early indications of the crisis were sharp drops in private capital flows and international trade. What was seen originally as a U.S. financial sector crisis spread to other economies through finance and trade channels. Falling international demand led to declining exports from emerging economies. Meanwhile, private capital flows to developing countries dropped rapidly, from a peak of around $1,200 billion in 2007 to $752 billion in 2008. This reflected the liquidity squeeze in advanced economies, which led investors to pull back from emerging markets.

Risk aversion prevailed in 2009, as investors sought to rebuild their balance sheets, and capital flows dropped further, to $454 billion (World Bank 2009e). In parallel, commodity prices fell, and several countries faced lower remittances.[2] Private capital flows are showing signs of rebounding in 2010, to a projected $590 billion, a 30 percent increase (World Bank 2010c). Figure 2.2 clearly shows the v-shaped pattern in private investment in the crisis period, which has been driven by flows to middle-income countries (MICs), especially portfolio equity seeking higher yields and commercial bank debt.

FIGURE 2.2 Private Capital Flows, 2006–10



Sources: World Bank, Economist Intelligence Unit.

Note: Based on calendar year data, 2006–10. Private capital inflows are the sum of FDI (foreign direct investment), portfolio equity, and debt inflows from private creditors.

The crisis has affected advanced and emerging economies more than low-income ones. The advanced economies experienced an unprecedented 7.5 percent decline in real gross domestic product (GDP) during the last quarter of 2008, and output continued to fall quickly during the first quarter of 2009. Emerging economies (or MICs) as a whole contracted by 4 percent in the last quarter of 2008, and this trend continued in the first quarter of 2009, while low-income countries (LICs) felt limited direct impact, given the weaker linkages of these economies to the global economy.

After a deep global recession, economic growth gradually turned positive in many developing countries, starting in the second and third quarters of 2009, but uncertainty remains. These developments are the result, in part, of wide-ranging stimulus packages that have supported demand and other government actions that reduced uncertainty and systemic risk in financial markets. The data for the last quarter of 2009 and the first quarter of 2010 also showed a continuation of the recovery, with more developing countries experiencing increased growth. This has led many observers to conclude that the crisis is over, although there remain numerous risks that will need close attention in coming years.

High fiscal deficits and increased indebtedness, especially in the advanced economies, are a cause for concern and are leading some countries to roll back stimulus. Events in Europe during the first half of 2010 (such as the crisis in Greece—closely related to high indebtedness and fiscal deficits) have reintroduced fears of *contagion* and have affected markets worldwide. The slow recovery in the main industrialized countries appears to be holding for now (evident in first-half growth in the United States and Europe), although a new set of macroeconomic problems is emerging. In these circumstances, timing of stimulus rollback is a central question, for advanced and emerging economies alike. Some countries, such as Mexico and a number of Euro-area countries, have already begun to reduce their fiscal stimulus, with more widespread fiscal tightening expected in 2011 (World Bank 2010c).

Differences in Impact: Policy and Geography

The impact of the crisis has varied widely among developing countries and regions. A review of the impact on the Bank's main borrowing countries shows that 29 countries suffered a severe impact: GDP growth rates fell an average of more than 5 percentage points between 2006/07 (the pre-crisis period) and 2008/09 (the crisis period). For another 36 countries, the impact of the crisis was moderate, with GDP growth rates falling between 2 and 5 percentage points, and in 51 countries the impact of the crisis was small, with a drop in GDP growth between the pre-crisis and the crisis periods of less than 2 percentage points. At the individual-country level, the range of impacts is even starker: some countries experienced GDP declines of more than 15 percent in 2009 (Latvia, Ukraine), while in others GDP growth continued at a healthy rate, even if slower than before the crisis (China, Indonesia).

The reasons for the differential impact of the crisis include countries' starting conditions in their fiscal and external balances and the specifics of trade and finance channels. Overall, it appears that the countries' own policy stance at the outset and during the crisis was the dominant factor. Countries with good fiscal and external balances performed better than countries where the external shock came on top of weak fiscal policies and high indebtedness (see below). An exception to this pattern was Mexico, where geography (closeness and high dependence on exports to the United States, as well as remittances) trumped policy, and the result was a major decline in economic activity, in spite of good macroeconomic performance before the crisis.

Regional Developments and Prospects

In spite of the differences across countries, there were similarities within any given Region. For example, the severity of the crisis in Eastern Europe and Central Asia was much greater than in East and South Asia (table 2.1). Also, Latin American and Caribbean countries appear to have suffered a more severe impact than would be expected, given their good policy stance going into the crisis. The rest of this section summarizes some of these characteristics at the Regional level.[3]

Eastern Europe and Central Asia. Preexisting vulnerabilities in the countries of this Region, including large current account deficits, excessive reliance on foreign capital to finance domestic consumption, and sizable fiscal deficits in some countries, exposed the Region to a particularly sharp adjustment when international sentiment reversed with the onset of the crisis. Faced with dramatic tightening of external financing conditions, governments responded with a mix of domestic macroeconomic adjustment initiatives and extensive resort to the IMF, the World Bank, and the European Union to enhance foreign exchange reserves, support budgetary expenditures, and resist downward pressure on local currencies. Even with these efforts, the crisis hit the Region hardest of all developing Regions.

Recovery is expected to remain weak, given the need for substantial adjustment in domestic demand and the extensive financial sector weaknesses. Continuing problems in the banking sector, remaining external financing constraints, and vulnerable household and corporate balance sheets have limited the speed of recovery in the hardest-hit economies of the Region. These factors, combined with higher interest rates and weak international capital flows, are likely to dampen growth in investment and consumption. Overall, growth performance in the Region is expect-

TABLE 2.1	Growth Projections (percent)				
Economy/Region	2007	2008	2009	2010[a]	2011[a]
World output	39	1.7	–2.1	3.3	3.3
Advanced economies	2.6	0.4	–3.3	2.3	2.4
Developing economies	8.1	5.7	1.7	6.2	6.0
East Asia & Pacific	11.4	8.5	7.1	8.7	7.8
Europe & Central Asia	7.1	4.2	–5.3	4.1	4.2
Latin America & Caribbean	5.5	4.1	–2.3	4.5	4.1
Middle East & North Africa	5.9	4.2	3.2	4.0	4.3
South Asia	8.5	4.9	7.1	7.5	7.8
Sub-Saharan Africa	6.5	5.0	1.6	4.5	5.1

Source: World Bank 2010d.
a. Forecast.

ed to be modest. The Bank forecasts 4.1 percent growth in 2010 for Eastern and Central European countries.

Latin America and the Caribbean. The Region's sound macroeconomic fundamentals in the pre-crisis period allowed it to weather this crisis much better than it had the crisis of the late 1990s. Yet the impact of the crisis was substantial. Economic activity contracted in the fourth quarter of 2008 and in the first half of 2009 as consumption, investment, and exports fell sharply. This was the result of tighter external financing conditions, deterioration in the Region's external demand, and lower workers' remittances. The deterioration in economic activity varied across the Region and depended mainly on the nature and intensity of external shocks and country-specific characteristics. For example, the decline in workers' remittances and tourism earnings severely affected economies in Central America and the Caribbean.

Net commodity exporters, including the Region's largest economies (Argentina, Brazil, Colombia, Mexico, Peru, and Venezuela), suffered large terms-of-trade losses. The energy-intensive economies of Bolivia, Ecuador, and Venezuela experienced particularly significant losses in export revenue. In the best-performing countries (Brazil, Colombia, Mexico, and Peru), the impacts of these shocks have been mitigated by an enhanced ability to implement countercyclical monetary and fiscal policies, more resilient financial sectors, and willingness to use the exchange rate as a shock absorber. For calendar year 2009, GDP is estimated to have fallen 2.3 percent, following an expansion of 4.1 percent in 2008.

The recession had bottomed out by mid-2009 for many economies in the Region. External demand rebounded faster and more strongly than initially anticipated in the second half of the year. GDP is projected to grow at over 4 percent annually in 2010 and 2011, although prospects vary considerably across countries. The recovery is projected to be especially strong in many commodity-exporting, financially integrated economies, which account for about two-thirds of the Region's GDP. This group includes Brazil, Chile, Mexico, and Peru. Growth prospects are more subdued in other commodity-exporting economies in the Region, including Paraguay and Venezuela.

Sub-Saharan Africa. After a decade of strong economic performance, growth in Sub-Saharan Africa slowed to 1.6 percent in 2009, with zero or negative per capita income growth. The global economic recession slashed the exports of many Sub-Saharan countries and disrupted capital flows. Oil exporters (such as Angola), commodity exporters (such as Botswana and Zambia), and MICs (such as South Africa) have been particularly hard hit; LICs somewhat less so. Nevertheless, relatively better macroeconomic policies during the pre-crisis period provided space for domestic economies to absorb some of the external shocks, supported by specific countercyclical measures.

The Region is expected to grow 4.5 percent in 2010 and 5.1 percent in 2011. The quick recovery reflects the limited integration of most low-income economies into the global economy and the limited impact on their terms of trade, the rapid recovery in global trade and commodity prices, and the use of countercyclical fiscal policies. Remittances and official aid flows have also been less affected by the recession in advanced economies than anticipated.

Middle East and North Africa. The developing economies of this Region were adversely affected by the crisis to varying degrees, largely depending on the composition of their exports and reliance on remittances and tourism. Growth for the more diversified economies dropped by about 2 percentage points in 2009, from a strong 6.5 percent GDP

growth in 2008 to 4.7 percent in 2009. The virtual collapse of key export markets (notably the Euro area) induced sharp declines in the merchandise exports of countries such as Egypt, Jordan, Morocco, and Tunisia. At the same time, remittances and tourism revenues—both important sources of foreign income that support household consumption and job creation for these countries—declined by 5 percent. Despite large, continuing infrastructure development programs, the growth rate of developing oil exporters declined by 3 percentage points in 2009 (from 4.6 percent in 2008 to 1.6 percent in 2009). Overall, the 2009 Regional growth rate was only 3.2 percent.

As a consequence, 2010 saw the Region growing out of the crisis rather quickly. Regional GDP is projected to grow 4.0 percent in 2010 and 4.3 percent in 2011. Higher commodity prices and external demand are boosting production and exports in many economies in the Region. In addition, government stimulus packages are playing a key role in enhancing the recovery. The sluggish recovery and weak demand for imports in Europe, and particularly the renewed risks emerging from the Greek debt crisis, together with vulnerable financial sectors and weak property markets in the Region (Kuwait and the United Arab Emirates in particular), are potential vulnerabilities that could have a negative impact on the recovery.

East Asia and the Pacific. The developing countries in East Asia and the Pacific escaped the worst of the crisis. They experienced the lowest declines in GDP growth among all Regions and the earliest and fastest recoveries. GDP growth in the Region was estimated at 7.1 percent in 2009, just over 1 percentage point below the high growth rate of 8.5 percent in 2008. The slowdown in GDP growth mainly reflected weaker investment and private sector demand, which were partially offset by an increase in public expenditures. The rapid normalization of trade following the financial dislocation in late 2008 greatly benefited the Region's export-oriented economies. Good internal and external balances and low public debt levels at the start of the crisis allowed many Asian economies to implement strong and timely countercyclical policy responses. Arguably, the lessons from the earlier East Asian crisis in the late 1990s were also influential in the policy decisions taken before and during the crisis.

The Region is expected to grow by 8.7 percent in 2010 and 7.8 percent in 2011. East Asia and the Pacific has benefited from close links to China, which has led the Regional and global recovery thus far in 2010. However, the earlier strong momentum in Regional exports and production is waning, and output gaps are closing rapidly. Coupled with large capital inflows and rising liquidity, this may put pressure on both goods and asset price inflation. To reflect these factors, Regional and Chinese growth are projected to slow in the 2011–12 period.

South Asia. GDP growth in the Region slowed markedly in 2008—to 4.9 percent from 8.4 percent in 2007. The slowdown in growth during 2008 reflected increasing weakness in the Region's two largest economies, India and Pakistan. Although the global economic crisis had a negative impact on South Asia, the slowdown in Regional GDP growth was the least pronounced among all developing Regions. This partly reflects the relatively closed nature of the Region's economies.

Regional economic activity has shifted into positive growth since mid-2009, led by India, Bangladesh, and, more recently, Pakistan. Fiscal stimulus measures have supported the rebound in output by helping to boost consumer demand. And continued robust remittance inflows (in contrast to declines elsewhere) and the recovery in global demand contributed to the achievement of 7.1 percent Regional growth in 2009. GDP is projected to grow by 7.5 percent in 2010. Improved investor sentiment, particularly related to strong growth in India and new IMF stabilization programs (Pakistan and Sri Lanka), as well as improved political stability in part of the Region (the end of civil war in Sri Lanka), led to renewed capital inflows.

Social Impact of the Crisis

The global economic crisis has erased some of the gains in living standards achieved by the developing world during the 10 years prior to the crisis. Bank estimates indicate that the crisis left an additional 50 million people in extreme poverty (below $1.25 a day) in 2009 alone, and that the number will rise to 64 million by the end of 2010 (World Bank 2010e).

Photo courtesy of Curt Carnemark/World Bank.

A rapid economic recovery would improve the situation for many of the extremely poor—but would still leave the poverty rate below Millennium Development Goal (MDG) targets. A quick rebound would lead to substantial reductions in the poverty rate, to 15 percent in 2015, which

TABLE 2.2	Poverty in Developing Countries, Alternative Scenarios, 2005–20		
Global level	**2005**	**2015**	**2020**
Percentage of the population living on less than $1.25 a day			
Quick recovery	25.2	15.0	12.8
Pre-crisis trend	25.2	14.1	11.7
Low-growth recovery	25.2	18.5	16.3
Number of people living on less than $1.25 a day (millions)			
Quick recovery	1,371	918	826
Pre-crisis trend	1,371	865	755
Low-growth recovery	1,371	1,132	1,053

Source: World Bank 2010e.

is still well below the MDG target of 20.4 percent (see table 2.2, "quick recovery"). Even under this scenario, however, the crisis will have a lasting effect on poverty. Had the crisis not interrupted the rapid economic progress made by developing countries through 2007, the poverty rate (at $1.25 a day) would have fallen to about 14 percent by 2015 (table 2.2, "pre-crisis trend"). This means that, in the absence of the crisis, an additional 53 million people would have been lifted out of extreme poverty. If the economic outlook deteriorates to the low-growth scenario (table 2.2, "low-growth recovery"), the poverty rate would only fall to 18.5 percent, which would mean that an extra 214 million people would be living in absolute poverty by 2015 as a result of the crisis and subsequent slow growth.

The long-term social impact of the crisis becomes clearer when the global projections are extended 10 years forward. The recovery trend suggests that by 2020, 826 million people (12.8 percent) in developing countries will be living on less than $1.25 a day, with 71 million more people living in absolute poverty in 2020 as a result of the crisis. The low-growth scenario would result in a rise of 227 million living in absolute poverty compared with the post-crisis recovery trend.

Fiscal and Debt Dynamics: Before and After the Crisis

From 2000 until the start of the crisis, there was marked improvement in the indebtedness and fiscal performance of most developing countries (with some major exceptions, mainly in Central and Eastern Europe). Advanced economies, however, did not share in this improvement (table 2.3). During the crisis period, fiscal deficits increased in all country groups, irrespective of income level, as a result of the crisis impact and automatic stabilizers (lower fiscal revenues and higher social sector expenditures), and, in some cases, because of fiscal stimulus programs implemented in response to the crisis. But, as noted above, the differences in starting conditions explain a large part of the differences in the severity of the crisis among countries. At the same time, the differences in starting conditions are also a major factor in accounting for the differences in post-crisis vulnerabilities brought about by increased fiscal deficits.

TABLE 2.3	General Government Gross Debt by Country Group (percent of GDP)			
Group	**2000**	**2005**	**2007**	**2009**
World	58.3	60.4	58.0	68.9
Advanced economies	66.7	74.7	72.9	90.6
Developing countries	46.2	40.1	36.9	38.0

Source: IMF 2010b,c.

Indebtedness

The global public debt-to-GDP ratio rose from 58 percent in 2007 to 68.9 percent in 2009. It is expected to continue to rise and to approach 79 percent in the next five years. This overall increase shows a very different picture when the countries are grouped by income level (table 2.3). The main increase in indebtedness (absolute and relative) took place in the advanced economies, where debt increased from 72.9 to 90.6 percent of GDP. In the developing countries, in contrast, the debt-to-GDP ratio increased marginally, from 36.9 percent in 2007 to 38 percent in 2009. This was partly due to a less severe crisis impact (and limited access to financing) in the developing economies.

A striking feature of the changes in indebtedness is that developing countries had lower indebtedness ratios at the end of 2009 than at the end of 2000, in spite of the crisis and the associated increase in fiscal deficits in the past two years. This was the result of major improvements in macroeconomic policy and performance by developing countries during the first years of the decade. In turn, these improvements helped to cushion the impact of the global crisis on developing countries, which could have been much more severe without these improvements (as the experience of some Europe and Central Asia countries has shown).

Advanced economies, however, entered the crisis (as a group) with a high debt–to-GDP ratio that had remained largely stable since 2000 (worsening in the first half of the decade and improving slightly thereafter). In this group the fiscal expansion from stimulus packages, coupled with plummeting revenues, raised the ratio further—from 73 percent in 2007 to 91 percent in 2009. The worsening of world average and advanced economies' debt ratios is also the sharpest in any single two-year period since 1995. The increase in public debt in high-income countries may be even higher than noted here when the massive contingent liabilities introduced as part of the crisis-response packages are included (in export guarantees, deposit insurance, loan guarantees).

TABLE 2.4 General Government Balance by Country Group

Group	2000	2005	2007	2009
World	−1.1	−1.7	−0.6	−7.2
Advanced economies	0.2	−2.3	−1.1	−8.8
Developing countries	−3.2	−0.8	0.0	−4.9

Source: IMF 2010b,c.

Fiscal Deficits

Owing both to increases in expenditure and losses of revenue, government balances have worsened sharply in many countries in the past two years. The changes are largest in high-income countries, although they are striking in some developing regions as well. Because of the differences in indebtedness and in fiscal position before the crisis, the increased fiscal deficits will also have differing effects on future debt dynamics and vulnerabilities during the post-crisis period of individual countries. As a group, however, the high-income countries have generally been left in a worse situation by the fiscal deterioration than have the developing economies.

For all countries combined, the general government balance is estimated to have increased by nearly 6 percentage points in two years (from minus 1.1 percent of GDP in 2007 to minus 7.2 percent in 2009; see table 2.4). This deterioration is by far the largest since 1995, the first year for which comparable data exists, and possibly the largest in decades. It is also a record high compared with the average post-crisis increase of 2.4 percentage points in the fiscal deficits of individual countries or groups of countries involved in 49 crisis episodes since 1980.

As in the case of indebtedness, the fiscal deterioration has been the most severe in advanced economies, where it reached nearly 8 percentage points, compared with just over 5 in developing countries. Moreover, as in the case of indebtedness, the starting fiscal position of developed countries was also worse than that of developing countries: between 2000 and 2007, just before the crisis, the fiscal deficit of advanced economies had improved only slightly, while the fiscal balances of developing countries had improved by about 3 percentage points. It should be noted, however, that the average improvement for all developing countries hides big differences across regions and among countries, with large improvements in Asia and Latin America, and to some extent in Africa, and continuing weak performance in Europe and Central Asia.

The large fiscal and monetary expansion, especially in high-income countries, was the correct response to the global economic crisis. Without the coordinated, multilateral expansion (which might be short lived because of the issues discussed above), the recession could have turned into a worldwide depression. Some large developing countries with good conditions at the outset of the crisis (such as China and Indonesia) also responded with stimulus packages, although in some cases (Indonesia) they were not very large.

In other large developing countries, also with good starting positions but more severely affected by the crisis (such as Mexico), the "fiscal headroom" was more limited and the deterioration in the fiscal balances more closely related to the impact of the crisis than to a deliberate stimulus package. Finally, in developing countries that entered the crisis with greater vulnerabilities, the large increases in the fiscal deficits, mainly through drastic reductions in fiscal revenues, were the unintended result of the crisis and they pose serious risks and increased vulnerabilities for the post-crisis period.

Post-Crisis Fiscal and Debt Dynamics

Unlike some of the previous episodes, the 2007–09 economic crisis called for a fiscal expansion rather than belt tightening. Hence the deterioration of fiscal deficits and increases in public debt noted here are neither surprising nor undesirable. But they do raise serious issues that need to be addressed in the post-crisis period, and they also point to the importance of prudent fiscal and debt management in periods of growth and global expansion. The impact of the crisis was smaller—and the reaction to the crisis more effective—in the many developing countries that had achieved improvements in their fiscal positions during the 10 years prior to the crisis. Countries that entered the crisis with limited fiscal space and high debt suffered more severe crises and had more limited room to maneuver in their crisis-response packages (IMF 2010a). All of them, however, now need to address the increased debt and higher deficits as part of the post-crisis management.

Experience with difficulties in bringing deficits and debt under control call attention to the need, for 2010 and beyond, to balance fiscal stimulus with measures for fiscal sustainability. Crucial in this context is the quality of government spending and the impact it is likely to have on sustaining economic growth. Examining the types of fiscal expansion and their impact on real output growth in different countries, the cost of borrowing, and private sector response are important areas for the governments to handle, and for the Bank Group to support and expand on in future work.

Comparison with Previous Crises

The 2008–09 global economic crisis both differed from, and resembled, earlier crises. Unlike past crises in emerging economies, this event had its roots in the financial systems of developed countries, had a global reach, and overlapped with the food and fuel price crises. At the same time, the impact

of the crisis on low- and middle-income countries has many similarities with past episodes: a rapid decline in capital inflows and economic activity in emerging economies; declines in export revenues and remittances; serious social effects in the form of rising unemployment and poverty; and the need for urgent action by IFIs to help fill financing gaps (both in the public and private sectors), assist in the provision of social safety nets, and offer knowledge services geared toward better systems of regulation and governance. As in the past, government deficits and debt have also increased.

Another key similarity is the importance of domestic policies and macroeconomic stance when an external shock hits developing countries. As noted earlier, countries with better fiscal performance before the crisis, and particularly with lower indebtedness, were able to cushion the adverse impacts of the crisis (including its social impact) through stimulus packages that temporarily increased the size of their fiscal deficits without posing serious vulnerabilities for the post-crisis period. Also, those with greater trade and investment openness appear to be recovering faster (IMF 2010b). As the recovery continues, attention to fiscal and debt sustainability, alongside support for trade and well-regulated private sector investment, will be crucial for all developing (and developed) countries.

Chapter 3

Once the global economic crisis started, it unfolded and spread very quickly. But acknowledgment of the crisis by the development community took some time. International financial markets shut down almost overnight following the collapse of Lehman Brothers in mid-September 2008, but it took a while for the global community—including the World Bank Group—to realize the full implications of what was happening.

Photo courtesy of Shehzad Noorani/World Bank.

The World Bank Group's Response

Once the global economic crisis started, it unfolded and spread very quickly. But acknowledgment of the crisis by the development community took some time. International financial markets shut down almost overnight following the collapse of Lehman Brothers in mid-September 2008, but it took a while for the global community—including the World Bank Group—to realize the full implications of what was happening.

The Bank Group responded in waves. Its initial response focused narrowly on increasing Bank lending, especially from middle-income borrowers. As the scale of the demand became apparent, the Bank took measures to ration available IBRD capital and get Board approval for an IDA Fast-Track Facility, while IFC began to develop global crisis initiatives to mobilize funds and leverage its role and impact (Development Committee 2008a). IFC management had already recognized the potential for countercyclical investments in the event of a downturn, especially in MICs, alongside prudent management of the existing investment portfolio (see IFC 2007, 2008).

Over time, more formal statements set out the linkages across programs, including those between Bank and IFC programs. A three-year strategy statement issued in March 2009 highlighted two main strands of the Bank Group's operational response. In the first strand, the Bank Group was seen to be stepping up its financial assistance to help its member countries mitigate the impact of the crisis, establishing magnitudes of $100 billion for IBRD, $42 billion for IDA, and $36 billion for IFC (alongside funds mobilization of around $24 billion). In the second strand, it defined a three-pillar response structure designed to protect the most vulnerable against the fallout of the crisis. This was to be done through the existing Global Food Response Program and a new Rapid Social Response Program by maintaining long-term infrastructure investment programs through the existing Infrastructure Recovery and Assets Platform and by sustaining the potential for private sector–led economic growth and employment creation through IFC. These pillars were positioned in the broader context of an overarching focus on macroeconomic stability at the core of the crisis response.

Capital headroom had a significant influence on the Bank Group response, and accounted for differences in the level and approach to financing across the IBRD, IDA, IFC, and MIGA. The capital positions of the different parts of the Bank Group were widely divergent coming into the crisis. Given low demand from middle-income borrowers for IBRD resources in the pre-crisis period, the IBRD was able to increase its annual lending nearly threefold during fiscal 2009–10. IDA was able to increase lending by a more modest 25 percent within the constraints of its funding availability.

IFC's starting situation was very different. It faced equity write-downs and increasing nonperforming loans from investments made during its pre-crisis expansion and had committed additional transfers to IDA. IFC conservatively estimated that it could invest around 5 percent more per year in fiscal 2009–11 than in 2008 (this is conservative, given rating agency assessments of IFC's capital adequacy and experience showing the financial and development benefit of IFC investing during a crisis).[1]

Differences in approaches to pricing were also a factor in the differing responses of IBRD and IFC, because these differences affected demand by middle-income clients for Bank Group financing. IFC's loan pricing is built on the premise that IFC should complement and not displace private capital. Its pricing factors in project and country risk premiums to the extent that benchmarks are available.[2] As a result, over the crisis period loan prices tended to rise most in countries hit hardest by the crisis. The IBRD, in contrast, does not discriminate among borrowers. The IBRD had historically low loan pricing when the crisis hit, having reduced the cost of new loans by an average 25 basis points over the LIBOR (London interbank offered rate) benchmark in September 2007 (returning the all-in cost of new borrowing back to 1998 levels) (World Bank 2007). This was followed in February 2008 by an increase in maximum tenors—to 30 years—for all new loans and guarantees. Loan pricing was adjusted upward again only in August 2009, this time by 20 basis points.[3]

The Bank Group response was countercyclical overall, but on balance the responses of IFC and MIGA were not countercyclical. Table 3.1 shows the aggregate Bank Group commitments for the evaluation period of fiscal 2009 and

TABLE 3.1	World Bank Group Commitments, Fiscal 2008–10 (US$ billions		
World Bank Group	2008	2009	2010
IBRD	13.5	32.9	44.2
IDA	11.2	14.0	14.5
IFC	11.4[a]	10.5[a]	12.6[a]
MIGA	2.1	1.4	1.5
Total	38.2	58.8	72.2

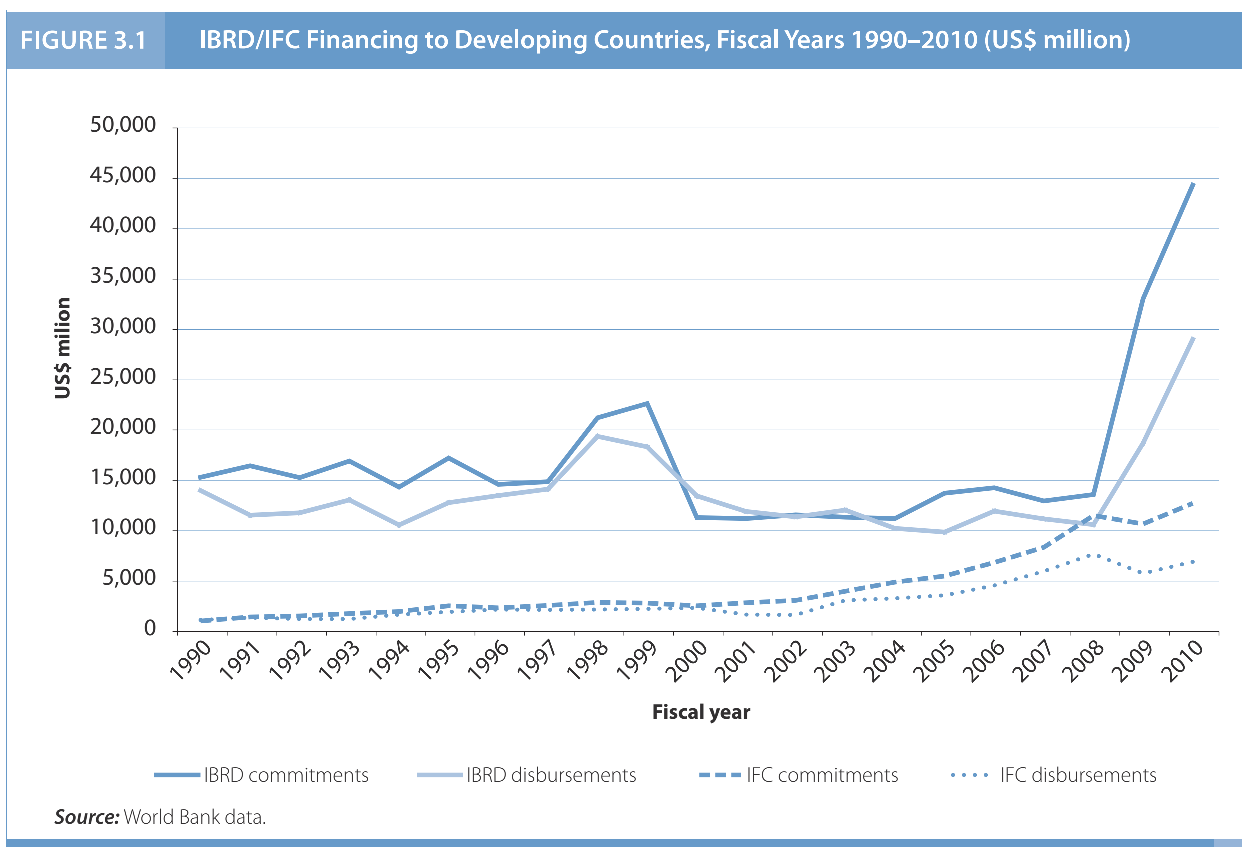
Source: World Bank data.

a. Own account only. Excludes $4.8 billion in fiscal 2008, $4.5 billion in 2009, and $5.4 billion in 2010 mobilized through syndications and structured finance.

2010, and for 2008 for comparison. It reveals sharp differences in response across Bank Group institutions: dramatically increased IBRD lending, moderately higher financing through IDA, and IFC and MIGA responses that were not countercyclical overall.[4] Figure 3.1 provides a longer-term perspective for the IBRD and IFC, highlighting the flat demand for IBRD financing in the pre-crisis period, which generated financial headroom for a more substantial response, and growth in IFC's business that limited capital headroom when the crisis struck.

The Bank Group has disbursed more than any other IFI—including the IMF—in this crisis. Table 3.2 compares aggregate Bank Group commitments and disbursements during fiscal 2009–10 with those of the IMF and other IFIs. It shows that Bank Group commitments were below those of the IMF, but that Bank Group disbursements exceeded those of the IMF. The relatively lower IMF disbursements compared with commitments reflect, in part, the contingent nature of much of the IMF's support, as well as the size of the outstanding Bank Group portfolio at the start of the crisis. The flows of other IFIs were proportionately less than those of the Bank Group, but with broadly similar relationships between commitments and disbursements. Bilateral

FIGURE 3.1 **IBRD/IFC Financing to Developing Countries, Fiscal Years 1990–2010 (US$ million)**



Source: World Bank data.

TABLE 3.2 IFI Financial Flows, Fiscal Years 2009–10 (US$ billion)

IFI	Gross commitments	Gross disbursements
World Bank Group (w/o MIGA)	128.7	80.6
IMF	219.0	67.0
Other IFIs	81.7[a]	56.4 [a]

Sources: World Bank Group, IMF, ADB, EBRD, IADB, and AfDB data.

a. Other IFI data through end-June 2010; includes Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), and African Development Bank (AfDB).

development assistance also increased, by nearly $20 billion between 2007 and 2009.

World Bank Response

The analysis of the World Bank response focuses on evidence related to two main evaluation questions: What did the Bank do? And how did the Bank do it? To help answer these questions, this section of the chapter first examines trends in lending, special initiatives, and analytic and advisory activities (AAA). It then examines the evidence on the Bank's internal crisis readiness and the external coordination of its crisis-response activities.

Financial Response

Lending Volumes

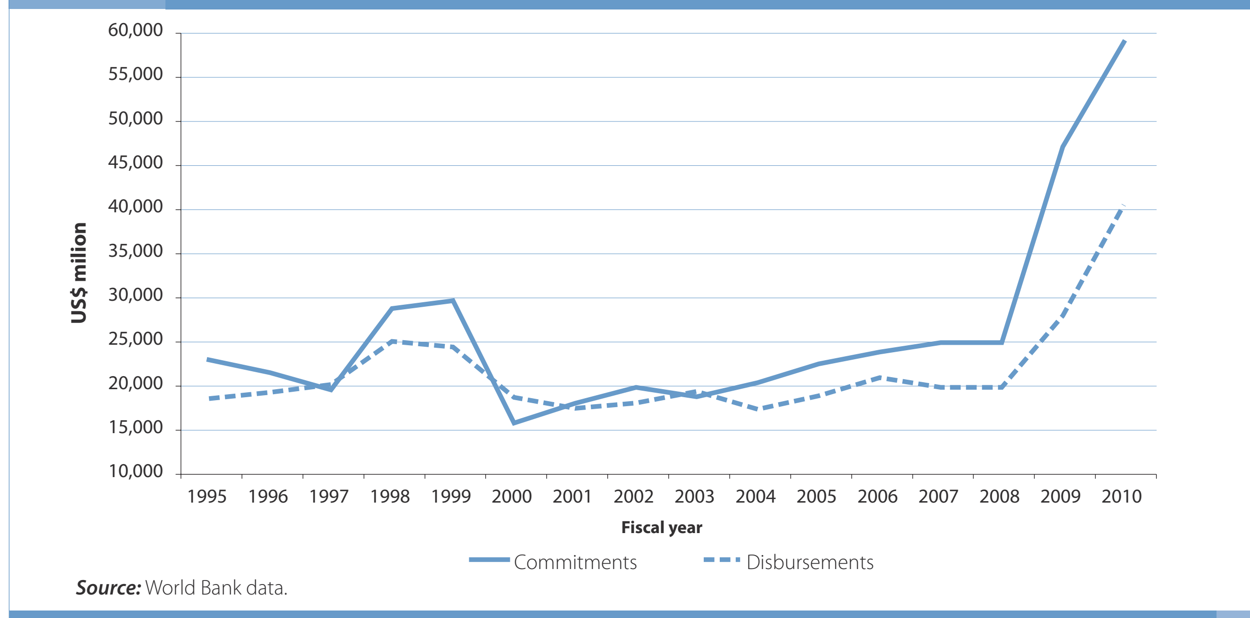
In nominal terms, fiscal 2009 commitments and disbursements broke Bank records, and fiscal 2010 broke the 2009 record.[5] These developments were driven largely by IBRD support to middle-income borrowers. IDA support to LICs was considerably smaller than the IBRD response, but in absolute terms it was also strong.

New commitments in fiscal 2009–10 were 114 percent above those of fiscal 2007–08. IBRD commitments rose by 193 percent between the two periods, and IDA commitments by 24 percent. This pattern—of a large IBRD response and a smaller IDA response—is similar to the Bank's response to the East Asian crisis (fiscal 1998–99).

The increase in Bank disbursements—a more relevant measure of the Bank's crisis response—lagged behind commitments. Disbursements in fiscal 2009–10 were 73 percent above their 2007–08 level. They were at record levels in fiscal 2009 and topped those levels in fiscal 2010, driven, as with commitments, by IBRD transactions with MICs. Of the $68.1 billion of Bank disbursements for fiscal 2009–10, about 57 percent ($38.8 billion) were on "new" commitments (approved in fiscal 2009–10), and 43 percent ($29.3 billion) on "old" commitments (approved before fiscal 2009–10).

There were also differences between IBRD and IDA. Sixty-six percent of IBRD disbursements were from new commitments, while only 37 percent of IDA disbursements were from new commitments. For the old commitments (mostly investment loans), there is no evidence of faster disbursements than in previous years or of attempts to speed them up. The large majority of the disbursements from new commitments are from development policy operations (DPOs), as discussed later in this chapter. [6]

FIGURE 3.2 World Bank Commitments and Disbursements: The Long View (US$ million)



Source: World Bank data.

Regional and Country Focus

Reflecting developments at the country level, the Regional shares of Bank lending shifted significantly during the fiscal 2009–10 crisis period (table 3.3)**.** In commitments, the shares of the Latin America and Caribbean and Europe and Central Asia Regions—where the crisis hit the hardest—rose during fiscal 2009–10 compared with previous years. The commitment share of the Sub-Saharan Africa and East Asia and Pacific Regions declined, the share of the Middle East and North Africa remained broadly unchanged, and the share of South Asia declined in fiscal 2009, before bouncing back in 2010.

The increase in the shares of Latin America and the Caribbean and Europe and Central Asia is an IBRD story, largely of DPOs, but also of quick-disbursing investment loans. The decline in the Sub-Saharan Africa share reflects the sharp increase in IBRD lending relative to IDA, rather than any diminution of lending to the Region. Sub-Saharan Africa's fiscal 2010 bounce, the product of the April approval of a large ($3.75 billion) IBRD loan to South Africa, is shown in table 3.3. For East Asia and the Pacific, the fall reflects declining shares of both IBRD and IDA lending. The changing year-to-year pattern in South Asia reflects movements of both the IBRD—with developments in India—and IDA—with changes in India and Pakistan. For Sub-Saharan Africa, East Asia and the Pacific, and South Asia, Regional shares of disbursements have moved less than commitments. Disbursements have been stabilized mainly by the Bank's large, slow-disbursing portfolio of investment lending, approved in previous years. However, the increased commitment shares of Latin America and the Caribbean and Europe and Central Asia carried over to disbursements, reflecting the heavy use of quick-disbursing instruments in the Bank's crisis response in the two Regions.

TABLE 3.3 Regional Shares of Bank Lending Commitments and Disbursements (percent)

Region	Fiscal year 2007	2008	2009	2010
Commitments				
Sub-Saharan Africa	23	23	17	19
East Asia & Pacific	16	18	17	13
Europe & Central Asia	15	17	20	18
Latin America & Caribbean	19	19	30	24
Middle East & North Africa	4	6	4	6
South Asia	23	17	12	19
Disbursements				
Sub-Saharan Africa	20	24	16	15
East Asia & Pacific	17	18	17	14
Europe & Central Asia	15	16	19	20
Latin America & Caribbean	19	17	29	29
Middle East & North Africa	9	6	5	6
South Asia	21	18	14	16

Source: World Bank data.

A changing Regional distribution of IBRD lending had also been a pattern in the East Asian crisis, when affected MICs turned to the Bank as financial markets closed to them. But recent developments differed from that pattern in two respects. First, this time IBRD *investment* lending has also been strong in Europe and Central Asia and Latin America and the Caribbean—this did not happen among middle-income borrowers in fiscal 1998–99. Second, East Asia and Pacific countries (except Indonesia and Vietnam) were much smaller users of DPOs this time, reflecting their relatively lower exposure to this crisis.[7] The jump in South Asia's fiscal 2010 IBRD commitment share reflects a fully disbursed $2.0 billion DPO to India for financial sector reform and $3.3 billion in investment lending commitments, although little of this commitment has disbursed (which explains the failure of South Asia's disbursements to match the increase in its share of commitments).

For the Bank as a whole, the increase in lending went to all country groups, but was much greater for countries that experienced large adverse impacts from the crisis, with the differences especially pronounced for disbursements. The evaluation divided all borrowing countries into three groups according to the impact of the crisis. Those with a decline in GDP growth of more than 5 percent between the pre-crisis (2006–07) and post-crisis periods (fiscal 2009–10) were classified as "most-affected" countries. Bank disbursements to this group, which includes 29 countries, increased by 133 percent between the pre- and post-crisis periods. Bank disbursements to the 51 countries classified as "least-affected" (those where GDP increased or fell by less than 2 percent) increased by only 30 percent between the two periods. For the "moderately affected" countries, the increase was 82 percent.

The results outlined in table 3.3 are very different when IDA and IBRD lending are considered separately. For the IBRD, the distribution is similar to that of the Bank as a whole. The increase in disbursements was 146 percent for the most-affected countries, and a much smaller 77 percent for the least-affected countries. The average increase in IBRD disbursements between the pre- and post-crisis periods was 125 percent. For IDA, however, the increase in disbursements differed little across the three groups of countries. Disbursements to the most-affected countries increased by 14 percent, to the moderately affected countries by 20 percent, and to the least-affected countries by

15 percent. The average increase in IDA disbursements between the pre- and post-crisis periods was 17 percent.

The evaluation Approach Paper and subsequent IEG reporting to CODE highlighted developments in 13 MICs, which together accounted for about 70 percent of IBRD lending during the pre-crisis period (IEG 2009a,c). During the fiscal 2009–10 crisis period, their combined share of IBRD lending rose to 75 percent. Together, the 13 countries accounted for 77 percent of the increase in IBRD commitments over the period, with 2 of the 13 countries—Mexico and Indonesia—accounting for 29 percentage points of the increase. These countries differed fundamentally in the degree to which they were affected by the crisis. Mexico was among the most crisis-affected, and Indonesia among the least.[8] However, Indonesia sought to increase its engagement with the Bank as part of an explicit crisis-prevention strategy (see chapter 4). Three of the 13 countries—Brazil, India, and Poland, which were among the moderately affected countries—accounted for another 28 percent of the overall increase (see appendix tables A4 and A5).

Sectoral and Thematic Focus

Five sectors—economic policy, social protection, the financial sector, infrastructure, and environment—accounted for almost all of the $56.2 billion increase in lending commitments and $28.8 billion in disbursements in fiscal 2009–10 compared with fiscal 2007–08. As discussed below, infrastructure accounted for the largest increase in lending commitments, reflecting a very strong outturn in the fourth quarter of fiscal 2010, and economic policy for the largest increase in disbursements. These relativities are in line with the differential timeframes and instruments—with infrastructure finance largely focused on the medium/long term and delivered through investment lending, while economic policy support was more focused on the short term and delivered through DPOs.

- ***Economic policy*** accounted for 23 percent of the increase ($13.1 billion) in Bank commitments and 28 percent of the increase ($8.1 billion) in disbursements, driven by the increase in DPOs. These operations supported policy reforms aimed at improving fiscal sustainability, the quality of public expenditures, and external competitiveness in countries large and small, such as Brazil, Guatemala, Indonesia, Iraq, Jamaica, Mauritius, Serbia, Tunisia, and Ukraine. In addition, lending operations in Poland, Turkey, and Vietnam provided support for labor market improvements.
- ***Social protection*** accounted for 13.3 percent of the increase ($7.5 billion) in commitments, including DPO and investment lending support for targeted social protection programs in countries such as Bosnia and Herzegovina, Bulgaria, Colombia, Ethiopia, Latvia, Mexico, Nepal, Pakistan, Panama, and the Philippines. However, support for social protection was concentrated in a few large loans, and almost 60 percent of the support was directed to three IBRD countries (Colombia, Mexico, and Poland) and one IDA country (Ethiopia). In addition, a number of DPOs classified as economic policy included social protection components, including DPOs in Armenia, Croatia, El Salvador, Ghana, Indonesia, Iraq, Jordan, Macedonia, Poland, Romania, Serbia, Turkey, and Vietnam.
- The ***financial sector*** accounted for 16 percent of the increase ($8.8 billion) in commitments. Most of this lending was approved in fiscal 2010 and supported financial sector development or reform in Hungary, India, Latvia, Mexico, Nigeria, and Turkey. These operations were both DPOs and credit lines, and the evaluation's preliminary assessment raised several questions about

Photo courtesy of Ray Witlin/World Bank.

these operations for further review in Phase II of the evaluation.

- ***Infrastructure*** accounted for 29 percent of the overall increase in Bank commitments ($16.4 billion), with much of it coming in the fourth quarter of fiscal 2010. The increase was due primarily to increased investment lending commitments of $4.0 billion for transport and $11.1 billion for energy, driven by large loans to Egypt, India, Kazakhstan, Mexico, South Africa, and Turkey. Infrastructure accounted for a much smaller share (about 18 percent) of the increase in disbursements.
- ***Environment*** accounted for 6 percent of the increase in commitments ($3.4 billion) and included green programs in Brazil, Colombia, Mexico, and Peru, among others.

Box 3.1 provides details on the social protection and infrastructure sectors, because they are also covered by Bank special crisis-response initiatives. It also describes the Global Food Response Program (GFRP), for which the lead sector, Agriculture and Rural Development, lost ground in relative terms during the crisis period, with commitments rising by $1.7 billion in fiscal 2009–10 compared with 2007–08, and disbursements flat.

BOX 3.1 SPECIAL THEMATIC CRISIS RESPONSE INITIATIVES

The Bank's crisis-response strategy included thematic initiatives to reinforce institutional priorities of protecting the vulnerable, preserving infrastructure, and rapidly responding to country needs. The initiatives include the Global Food Crisis Response Program (GFRP) and the Rapid Social Response Program (RSR), which function under the Bank's Vulnerability Financing Facility, and the Infrastructure Recovery and Assets Platform (INFRA).

Vulnerability Financing Facility[a]

The Global Food Crisis Response Program (GFRP) was launched in May 2008, in cooperation with United Nations and other agencies, to help countries deal with the global food crisis in the short term and to achieve sustainable food security over the longer term. It developed the fast-track approach that was subsequently adopted by the IDA Fast-Track Facility and included three externally financed trust funds, as well as a single donor trust fund from the IBRD surplus, in addition to regular IDA and IBRD financing.

Through the end of fiscal 2010, the GFRP covered 55 operations, committing $1,238 million and disbursing $920 million, for an overall disbursement rate of 74 percent. The relatively high disbursement rate reflects the greater proportion of DPOs, emergency operations, and quick-disbursing trust funds in the GFRP than in IDA and IBRD operations more generally. For example, in agriculture and rural development, the GFRP covered 24 operations in IDA borrowers, with commitments of $631 million in fiscal 2008–10 and disbursements of $407 million, for a disbursement rate of 65 percent, compared with 27 percent for IDA operations more broadly. If the $250 million Ethiopia emergency food crisis credit, which is fully disbursed, is excluded from commitments and disbursements, the GFPR disbursement rate for agriculture and rural development declines to 41 percent, and if the trust fund components are also excluded, the rate declines further—to 31 percent. The GFRP also provided for diagnostic studies and involved periodic monitoring and reporting on the situation in affected countries.

The Rapid Social Response Program, launched in April 2009, focused on social safety nets, labor markets, and access to basic social services, especially in low-income countries.[b] It combined donor trust fund support for diagnostics and country capacity building with support for rapid social response themes through IBRD and IDA loans, credits, and grants. The latest RSR progress report sets out $4 billion in Bank commitments in fiscal 2009 and in 2010, compared with less than $1 billion in 2008. While the program may have helped to highlight the importance of social protection in the response, the numbers point strongly to a demand-driven response to middle-income IBRD borrowers such as Colombia, Mexico, and the Philippines. For IDA, the larger spike in social response commitments came in fiscal 2009 (before the launch of the RSR).

Infrastructure Recovery and Assets Program (INFRA) [c]

INFRA grew out of the Bank's Infrastructure Action Plan and, as of April 2009, had become one of the three pillars of the Bank Group response. It covers diagnostics, partnerships, and lending in four subsectors—energy, global communications, transport, and water—that are typically supported by investment lending. Including Board approvals of $13.4 billion in the fourth quarter of fiscal 2010, and driven by large IBRD loans in energy and transport, commitments for infrastructure rose by 77 percent during fiscal 2009–10 compared with fiscal 2007–08, mostly in the form of investment lending; disbursements increased by 40 percent.

a. The Vulnerability Financing Facility was to have included a third pillar, the proposed Energy for the Poor Initiative (EFPI). Originally conceived in June 2008, when oil prices were double current levels, as a way of providing protection to most-affected groups, the EFPI had not been activated by the end of the third quarter of fiscal 2010.

b. See World Bank 2009b

c. See www.worldbank.org/infra.

BOX 3.2 VELOCITY OF DISBURSEMENTS: COMPARISON OF DPOS AND INVESTMENT LENDING

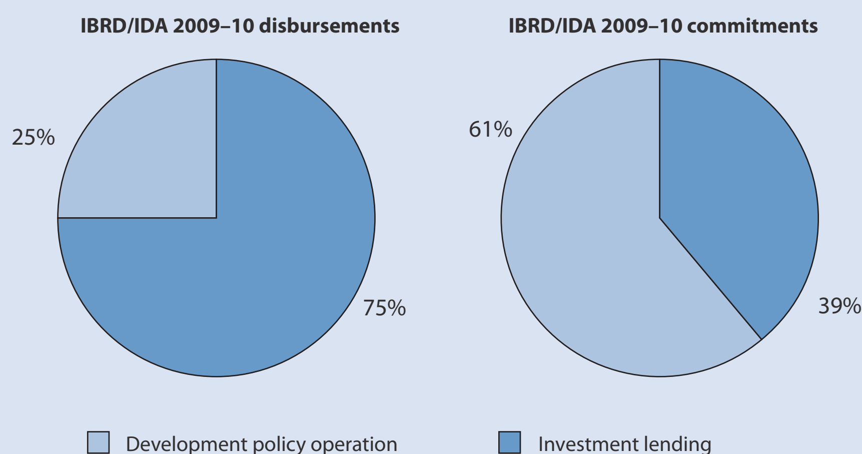
To assess how well the Bank's use of instruments contributed to global stimulus during the evaluation period, the evaluation team examined disbursements of "new" versus "old" loans. The first two columns of the table below show commitments and disbursements during fiscal 2009–10. The third and fourth columns decompose disbursements into two categories—disbursements from old loans and credits, approved before fiscal 2009, and disbursements of new loans and credits, approved during fiscal 2009–10. It shows that of the total $68.1 billion disbursed in fiscal 2009–10, $29.3 billion (43 percent) was from commitments approved in the years before fiscal 2009, and $38.8 billion (57 percent) was from commitments approved during the evaluation period. It also shows that these proportions varied between DPOs and investment lending. For DPOs, 91 percent ($29 billion) were from commitments approved during the evaluation period. For investment operations, 27 percent ($9.8 billion) were approved during the evaluation period; 73 percent of investment lending disbursements was from portfolio loans and credits approved prior to the evaluation and the onset of the crisis.

Disbursements: DPOs and Investment Lending (US$ billions)

	Total commitments fiscal 2009–10	Total disbursements fiscal 2009–10	Disbursements of old, pre-fiscal 2009–10, commitments	Disbursements of new, fiscal 2009–10, commitments
Total	105.6	68.1	29.3	38.8
DPO	41.3	31.7	2.7	29.0
Investment lending	64.3	36.4	26.6	9.8
IBRD total	77.1	47.4	16.3	31.2
IBRD DPO	36.1	26.6	2.2	24.4
IBRD investment lending	41.0	20.9	14.1	6.8
IDA total	28.5	20.6	13.0	7.6
IDA DPO	5.2	5.1	0.5	4.6
IDA investment lending	23.4	15.5	12.5	3.0

The charts below provide another way of looking at the same issue. They show the comparative shares of DPOs and investment lending in disbursements and commitments of operations approved in fiscal 2009–10. Though DPOs account for a large majority of disbursements (75 percent) of loans and credits approved in fiscal 2009–10, they represent a minority (39 percent) of commitments. Indeed, the larger point here is the comparative disbursement rates for new commitments approved during the evaluation period—and that the Bank could have gotten more leverage for its capital by doing more DPOs or other quick-disbursing investment operations. For IBRD DPOs, for example, 68 percent of commitments approved during fiscal 2009–10 disbursed during that same period. For investment lending, the comparable disbursement rate was 17 percent. In other words, to get $100 million of additional disbursements in a 24-month period, the Board would need to approve DPOs (or other quick-disbursing operations) totaling $147 million, compared with slow-disbursing investment loans totaling $588 million, or four times as much.

DPO Shares in Disbursements and Commitments, Operations Approved in Fiscal 2009–10



Source: IEG calculations.

Lending Instruments and Modalities

During fiscal 2009–10, investment lending accounted for 61 percent of commitments and 53 percent of disbursements, while DPOs represented 39 percent and 47 percent, respectively. However, the shares are very different for IBRD and IDA (box 3.2). For the IBRD, DPOs accounted for 47 percent of commitments and 56 percent of disbursements, while for IDA, DPO commitments remained below 25 percent and disbursements below 30 percent. Similar patterns, with a strong IBRD development policy lending response and a limited IDA response—characterized the Bank's response to the East Asian crisis.[9]

DPO commitments totaled $41.3 billion during fiscal 2009–10, and disbursements $31.7 billion, of which $22.9 billion was for new commitments approved during the period.

IBRD DPO commitments in fiscal 2009–10 totaled $36.1 billion, representing a fourfold increase over fiscal 2007–08. The fiscal 2009–10 total included $4.9 billion that used the deferred drawdown option (DDO), of which $1.1 billion has been disbursed. Of the $31.2 billion in regular DPOs, $17.7 billion has been disbursed. These developments reflect large IBRD DPO commitments to Brazil, Colombia, Hungary, India, Indonesia, Mexico, Peru, Poland, Turkey, and Ukraine, in several cases including use of the DDO, which was also used in smaller operations for Bulgaria, Costa Rica, and Mauritius. Through the end of fiscal 2010, only one operation—the Latvia Safety Net and Social Sector Program—had been approved by the Board as a Special Development Policy Loan.[10]

In sharp contrast, IDA DPO commitments totaled $5.2 billion over the period, a decrease of 2.4 percent over fiscal 2007–08. Over half of the total was in credits to four countries—Nigeria, Pakistan, Tanzania, and Vietnam—with DPOs also to a number of other countries in Sub-Saharan Africa (Burkina Faso, Côte d'Ivoire, Ghana, Mozambique, and Rwanda, among them) and South Asia (Afghanistan, Bangladesh, Bhutan, and the Maldives). Ten out of 14 operations approved to date under the IDA Fast-Track Initiative, launched in late 2008, have been DPOs (World Bank 2008c).

IBRD investment lending commitments in fiscal 2009–10 amounted to $41 billion, an increase of 119 percent over fiscal 2007–08. Among these, there have been some very large investment operations that have disbursed very little, such as the Kazakhstan $2,125 million Southwest Road Loan. That loan, which had long been in the lending program as a $100 million operation, increased 21-fold just before negotiations. More recently, the $3.75 billion South African Eskom Investment Support Loan has disbursed under $10 million, though it became effective quickly after approval in April 2010.

IDA investment lending commitments in fiscal 2009–10 totaled $23.4 billion, an increase of 31 percent over fiscal 2007–08. About half of this amount ($12.4 billion) went to six countries—Bangladesh, India, Nigeria, Ethiopia, Pakistan, and Vietnam. IDA investment lending disbursements totaled $15.5 billion, of which $3 billion was for operations approved during fiscal 2009–10, with $12.5 billion for portfolio operations approved in earlier years.

Analytical Response

Corporate Strategy and Communications

Corporate communications have said little about the Bank's analytic response. The Bank's Web site states that analytic work was central to its crisis response, yet it pays far greater attention to the financial response (see World Bank 2010b). Both the April 2009 and October 2009 Reports to the Development Committee on the Bank's activities and priorities used the same text to describe the Bank's analytic response,[11] and it has seldom been mentioned in key communications. For example, in the March 2009 document (World Bank 2009f) setting out the Bank's crisis-response strategy, almost all references to Bank Group advisory services were to IFC activities; the only exception was a passing reference to Bank analytic work on infrastructure—with nothing on the work of Poverty Reduction and Economic Management (PREM), the Human Development Network (HDN), the Financial and Private Sector Development Department (FPD), or the other Social Development Network (SDN) sectors, such as agriculture and rural development and the environment.[12]

DEC and Network Anchors

The evaluation found different approaches to the analytic response across central units in the Development Economics Department (DEC) and in the network anchors. DEC was positioned to respond to the crisis in important ways, drawing on the Research Department's ongoing work program. Two early DEC responses to the crisis were particularly influential—a report on the lessons from World Bank research on financial crises and another that estimated the implications of the crisis for infant mortality.[13]

Subsequently, DEC produced a number of relevant data and other products as well, several in partnership with network anchors and/or external partners, including monthly country-at-a-glance tables on recent economic and financial indicators that contain timely crisis-relevant data on MICs. Further, since 2009, the Bank's flagship publications—*Global Economic Prospects*, *Global Development Finance*, and *Global Monitoring Report*—have all focused on the crisis, providing important analysis of and information about aspects of the crisis for Bank clients, shareholders, partners, staff, and other stakeholders.

PREM also issued timely crisis-related papers, some in collaboration with DEC and HDN. Noteworthy contributions include reports on the crisis and trade; potential impacts of the economic downturn on poverty, labor markets, and employment (in collaboration with HDN); gender implications of the crisis; protecting core fiscal spending for growth and poverty reduction; design of policies to assist the most affected; vulnerable countries and populations; and, in collaboration with DEC and HDN, impacts on the MDGs. The PREM anchor also provided timely insights and analysis for Regional staff on early crisis impacts and policy responses, in the context of the PREM Financial Crisis Collaboration Web site, which went online in December 2008.

In the other sectors, FPD recognized the need for such approaches later in the crisis, while the SDN was extremely proactive, but there was not always sufficient clarity about the Bank's role. FPD created a special Web page on the crisis and issued several papers covering crisis-related topics in the financial sector. But this effort began relatively late in the lifecycle of the crisis. The first financial sector paper—the brief "Dealing with the Crisis: Taking Stock of the Global Financial Crisis" (Stephanou 2009) was issued only in May/June 2009. (Two earlier FPD Policy Briefs, though of good quality, contained little financial sector specificity—one was a speech on the impact of the crisis on emerging economies and the other was a Working Paper on taxation in Bulgaria.[14] Also, Financial Sector Assessment Programs were 'current'—that is, carried out between fiscal 2006 and the first quarter of fiscal 2009—for only around one-third of client countries.

Meanwhile, SDN invested heavily in the INFRA platform (see box 3.1), focusing on country-based infrastructure diagnostics. However, this work was geared to supporting what some SDN staff saw as "the Bank's role in advocating for continued maintenance of infrastructure assets and the preservation of the pipeline of infrastructure projects throughout the crisis." A broadly similar perspective is reflected in the SDN's December 2009 progress report discussing INFRA's "advocacy for countercyclical spending on infrastructure as an effective tool to provide the foundation for rapid recovery and job creation and to develop a robust economic platform for long term growth" (World Bank 2009e).

Regional and Country Programs

The Bank's analytic work at the country level was an important part of the crisis response. Country programs with solid portfolios of AAA had the necessary foundation in knowledge and the relationships with the authorities to expand lending when the need arose. But equally important, such programs were well-placed to inform high-payoff exchanges with the authorities—often through policy notes and presentations—even when lending was unlikely to be forthcoming. Of course, a crisis is not the time to launch new, in-depth analysis, which risks being completed only after the crisis is over. Crises thus put a premium on having a good portfolio of country- and sector-based analysis and knowledge to draw from quickly in putting together cogent, practical, and timely policy advice and options for the authorities. (See box 3.3 for an analysis of where there may be gaps.)

Links between AAA and Lending

The connections between AAA and lending quality were highlighted in the 11 country case studies prepared for the evaluation. Of particular importance is that AAA was found to be a decisive determinant of the quality of DPOs and of the related policy dialogue on the crisis response. This reinforces a finding of the recent IEG review of country economic and sector work (ESW) (see IEG 2008b). Resources for AAA grew by 15 percent in fiscal 2008, then at an annual rate of 5 percent in fiscal 2009 and 2010. Only one country team (Ukraine) of the 10 interviewed for the evaluation expressed concern about AAA resources, even in the face of lending-related budgetary pressures. In some cases (Indonesia and Vietnam), the country teams pointed to the availability of trust funds for analytic work, and in one case (Mexico) to the availability of fee-based AAA services and to growing budgetary resources related to the increased lending program.

About two-thirds of the case study DPOs reviewed were judged to have built on analytic work. Examples of AAA products especially welcomed by government included a country economic memorandum and a demand-driven aid-for-trade study in Mauritius, which contributed to the government policies and were reflected in the DPO design. The DPO in Jordan similarly built on a solid portfolio of ESW, including an earlier public expenditure review, investment climate assessment, Financial Sector Assessment Program Update, and insolvency and creditor rights Report on the Observance of Standards and Codes. In Mexico, major environmental studies focused on carbon emissions across several sectors of the economy, as well as the policy implications, residential energy prices, and implicit subsidies. The review also found that Europe and Central Asia's extensive Regional work on pensions provided a platform for DPO components in Hungary, Poland, and Ukraine, among others.

Investment lending can also benefit from AAA when relevant sector work is available. Quick-disbursing investment projects in social protection in Colombia and Mexico built on previous Bank work on targeting and conditional cash transfers, in which recipient families had to show a record of school attendance and health visits of their children to qualify for the transfers. The Mexico investment lending program

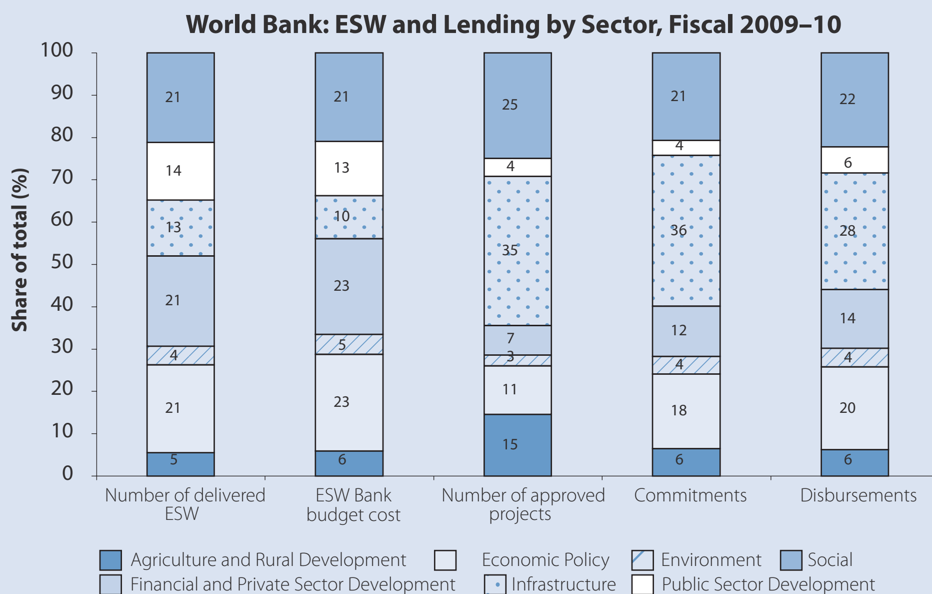
BOX 3.3 PORTFOLIO OF AAA TO INFORM LENDING

Once a crisis strikes, it is too late to invest in basic research to inform the response. This understanding prompts a critical question: how well invested was the Bank at the start of the crisis? Whether the Bank's economic and sector work (ESW) was adequate for a high-quality crisis response is a complicated topic, and one that goes well beyond the scope of the current evaluation. But two simple comparisons are helpful in forming views on this question.

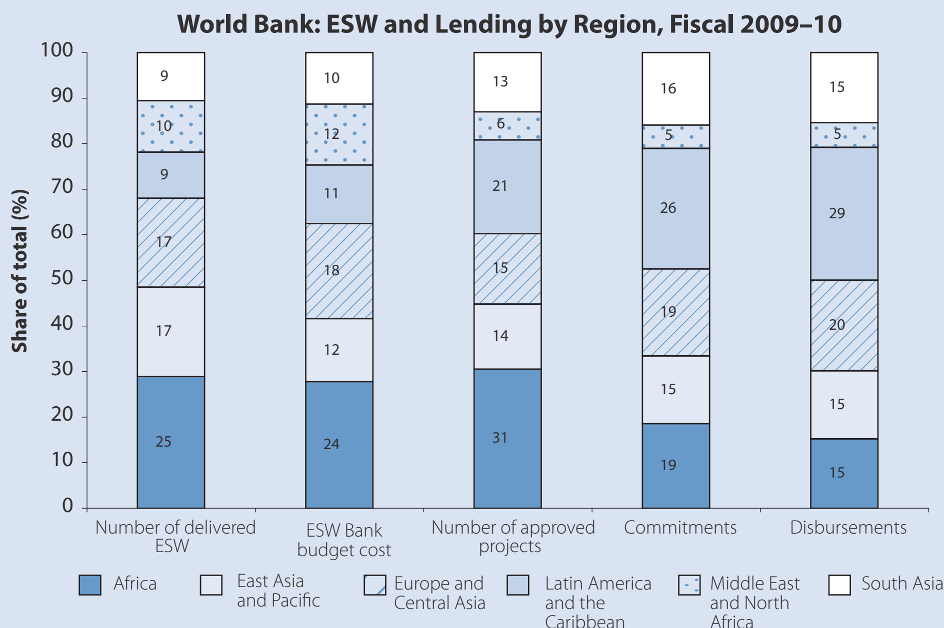
First, looking across Regions, and mindful of important caveats, the figure below presents comparative data on the Bank's ESW in the fiscal 2007–10 period and lending in fiscal 2009–10. Given the jump in lending to Latin America and the Caribbean, it suggests that ESW for this Region has been underfunded compared with fiscal 2009 and 2010 lending. For Sub-Saharan Africa, ESW is more in line with numbers of projects than commitments, given their small size.

Second, the figure shows the results of a similar comparative exercise, but filtered by sector rather than by Region. It suggests that infrastructure (and, to a lesser extent, social development) has been shortchanged on ESW, while the financial sector may have been funded more than other sectors. However, both the infrastructure and social development sectors benefit from large trust funds, which complicate the interpretation of the ESW data and need to be taken into account in the further analysis in the next phase of the evaluation.

World Bank: ESW and Lending by Sector, Fiscal 2009–10



World Bank: ESW and Lending by Region, Fiscal 2009–10



also drew on a large program of fee-based analytic services to underpin quick-disbursing investment loans of $1 billion in the housing sector and $1.5 billion for social protection.[15]

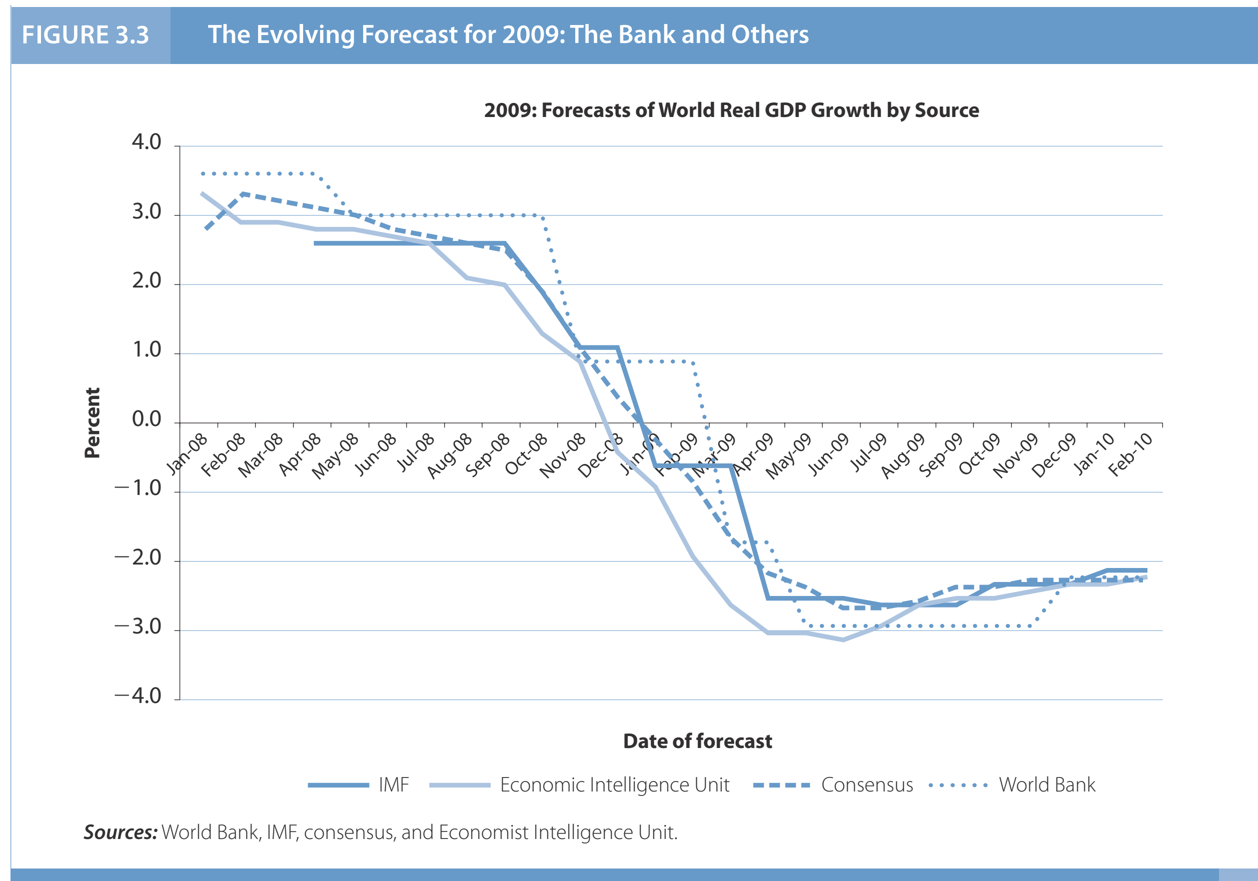
The evaluation found examples where the AAA and related diagnostic work—especially in respect to the Financial Sector Assessment Program (FSAP)—underpinning operations appeared insufficient, including work in countries with financial sector DPOs. These operations went forward without the detailed articulation of measures—and credible results frameworks—that are critical for success. In those cases, the DPO program objectives were vague and aspirational rather than specific and carefully articulated. On the whole, the evidence points to solid AAA and Financial Sector Assessment Program work as the critical factors in positioning the Bank to respond quickly and substantively to countries' emerging needs. Where that foundation was missing, the quality of the Bank's crisis response suffered. Indeed, a clear lesson of the evaluation is that good analytical work is an important prerequisite to rapid and effective crisis response in general, and to well-constructed DPOs in particular.

Policy Notes and Presentations

Experience suggests that freestanding AAA activities can be useful to country authorities and other stakeholders, though the activities may not be captured in standard Bank reporting. Government feedback regarding AAA was positive in several cases. In one case, the authorities singled out technical assistance in the design, execution, and evaluation of financial-crisis simulation exercises funded by the Bank budget and a grant from the FIRST Initiative. In another case, officials appreciated the Bank's just-in-time review of the provisions for special private sector support as part of the government's stimulus package.

Several Regional chief economists' and sector directors' offices have been proactive on crisis-related topics in the context of presentations or sponsored research. For example, the chief economist's office in Latin America and the Caribbean has made a number of crisis-related presentations to audiences within countries in the Region and elsewhere, with an emphasis on the links between macroeconomic and financial sector issues. The chief economist's office of the Middle East and North Africa Region also made presentations—in this case, focused on possible transmissions to the real economy in the Arab world. The PREM Sector director's office sponsored an important safety net conference in Egypt for countries in the Region. The Europe and Central Asia chief economist's office sponsored important research on the crisis and its implications for households in the Region (World Bank 2010a). More broadly, Europe and Central Asia staff invested heavily in monitoring the impact of the crisis as it unfolded, using a variety of analytic tools

FIGURE 3.3 The Evolving Forecast for 2009: The Bank and Others



Sources: World Bank, IMF, consensus, and Economist Intelligence Unit.

and data sources and in assessing the adequacy of social assistance programs as an input to the policy dialogue with the authorities and partners.

Internal Readiness

Had the Bank anticipated the crisis, it would have had more time to prepare for it, but, as in the case of the other IFIs, it did not. This leads to four questions: Was the Bank somehow remiss in not anticipating the crisis? How well did the Bank do on early warning systems—in detecting the early signs of crisis and sounding the alarm internally and externally? How well-prepared was the Bank to handle what the crisis eventually threw at it on the operational side? How prepared was the Bank to handle the challenges on the financial side?

Bank forecasts of the crisis were broadly in line with mainstream views. Figure 3.3 shows the evolution of the Bank's official and publicly disclosed forecast of the growth of global GDP for 2009, the forecasts of the IMF and the Economist Intelligence Unit, and the industry "consensus forecast" for the same time period. The big picture is that none of these forecasters called the severity of the downturn before it started to be felt in the global economy and in the markets in a major way. In September 2008, when Lehman Brothers collapsed, the Bank was still anticipating global growth of 3 percent for 2009, with the IMF predicting only somewhat less, though the Economist Intelligence Unit forecast was already down to 2 percent—with neither the Bank nor the IMF moving into the red zone for 2009 until the year had actually begun.[16]

Early Warnings and Alerts

While the Bank was broadly aligned with comparators' views on the forecast, it could have disseminated the updated forecasts to clients and the broader international community in a more timely manner. Figure 3.3 suggests that the IMF lowered its official forecast for 2009 in October 2008, just before the Annual Meetings, while the Bank's official pre-crisis forecast was unchanged until its November 2008 report (just after the Annual Meetings). Nevertheless, the Bank had lowered an unofficial forecast before the Annual Meetings, and when the official forecast was revised, it lowered the 2009 global growth forecast more than the IMF did—from 3 percent to 0.9 percent, compared with the IMF's successive cuts from 2.6 percent in April, to 1.9 percent in October, and 1.1 percent in November.

The Bank and the IMF said many similar things at the 2008 Annual Meetings, but with major differences in the emphasis they placed on the crisis and the messages conveyed. The Annual Meetings statements of both the Bank and the IMF on October 13, 2008 (see Kahn 2008; Zoellick 2008) acknowledged the recent financial shocks and the risks they carried, on top of the earlier food and fuel shocks, which were then subsiding. The Bank's statement focused on its main theme of multilateralism and markets; the IMF's main theme was the crisis itself and the urgency of acting quickly and comprehensively. Also, though less notable, differences characterized the two institutions' reports to the Development Committee (See Development Committee 2008a, b).

There were many reasons for the IMF to have reacted quickly to this particular crisis. Not least of these reasons was the origin of the crisis in the financial sectors of the advanced economies, where the Fund has an important mandate and role in bilateral surveillance through the Article IV Consultation process and multilateral surveillance, as reflected *inter alia* in its work on the *World Economic Outlook* and the *Global Financial Stability Report*. The Fund's independent evaluation office is looking into the effectiveness of the institution in anticipating the crisis (IEO 2010).

Several internal Bank issues also may have contributed to the differences in institutional approaches and initial delays in response. For the Bank's part, while the crisis began in Organisation for Economic Co-operation and Development countries, global interdependence necessitated a high state of readiness. Interviews with Bank staff, clients, and partners pointed to factors that individual senior managers were grappling with at the time, as well as organizational fragmentation across network leadership, DEC, and in respect to the financial sector, which some saw as diminishing the Bank's ability to connect the dots between macroeconomic and financial sector developments. Country offices also reported that they often relied on IMF forecasts, rather than any generated by the Bank, indicating a lack of connectivity between country and global forecasting.

Operational Organization and Capital Adequacy

During the early phase of the crisis response, the Bank capitalized on the relationships of country teams with clients and partners. The Bank's larger readiness challenge was internal: the instruments and modalities by which country teams would be able to respond to country requests for increased financing, especially DPOs from IBRD borrowers. The Bank benefited from having in place a core set of flexible instruments—both for investment and development policy lending—though there remain important pending issues, such as maturities, which in some cases may be too long for what are essentially liquidity operations, as discussed in chapter 4.

On the modalities, the priority was to put in place a mechanism for rapid review—which the Bank did soon after the 2008 Annual Meetings, through a Crisis-Response Working Group—taking into account Board-approved operational policies and IBRD country creditworthiness requirements and financial availabilities. During this process, the Bank built on longstanding institutional arrangements,

such as the Operations Committee, for management review of major lending increases, and on the country directors' group, which remains an important vehicle for cross-fertilization and communications among country directors and between country directors and Operations Policy and Country Services (OPCS) and other central units.[17]

The Bank would not have been able to respond as it did if it had not been so well positioned financially when the crisis started. The IBRD went into the crisis with an equity-to-loans ratio of 38 percent, compared with a target range of 23 – 27 percent, which gave it substantial room to expand lending. The IDA15 operational period, which had just become effective on July 1, 2008, had increased available resources for commitments by about 25 percent. Of course, neither of these developments reflected specific plans for dealing with the global crisis. IBRD's crisis response benefited from the very low pre-crisis demand for IBRD financing from MICs, especially those with investment-grade financial markets, such as Mexico, which had prepaid the Bank for earlier loans as part of its own external liability management programs, opening headroom for borrowing in the event of a crisis.

Once international financial markets seized up, demand for IBRD financing surged, even from investment-grade borrowers. The focus quickly shifted from what to do with the "excess" IBRD capital to how to ration it among borrowing member-countries and how to increase IBRD capital to support higher lending levels. The timeline in box 3.4 shows the progression of Development Committee thinking, starting with an April 2008 focus on ways of "deploying capital more effectively" and leading to endorsement of a capital increase two years later.

Internally, the OPCS-led Crisis-Response Working Group played a critical role in managing the Bank's IBRD response. Within the Working Group, the Bank's Country Credit Risk Department— building on a framework developed earlier for determining lending envelopes incorporated in country assistance strategies—had responsibility for ensuring (i) that the IBRD single-borrower limit was not breached; (ii) that when exposure to non-investment-grade countries rose, it was accompanied by policies that boosted country creditworthiness; and (iii) that the level of risk-adjusted capital required to support the lending (determined on the basis of the Country Credit Risk Department 's creditworthiness analysis) was taken into account, available, and fairly distributed relative to other requests.

The IDA situation was very different from that of the IBRD. The food and fuel crises had more adversely affected IDA borrowers than others, and as that crisis waned and the global economic crisis deepened, the situation of some IDA borrowers actually improved, at least temporarily. In addition, the IDA allocation process is very different from that of the IBRD, with almost all resources allocated across countries on the basis of the IDA performance-based allocation system. In the circumstances, IDA resources were largely spoken for at the start of the crisis. Increases could

BOX 3.4 IBRD CAPITAL ADEQUACY: EVOLUTION OF DEVELOPMENT COMMITTEE VIEWS

April 13, 2008	"We … look forward to the results of the strategic review of IBRD capital and progress on deploying capital more effectively for development impact."
October 12, 2008	"IBRD has the financial capacity to comfortably double its annual lending to developing countries to meet additional demand from clients. IBRD lending was US$13.5 billion last fiscal year."
April 26, 2009	"We confirmed our support for making optimal use of IBRD's balance sheet with lending of up to $100 billion over three years. Given the possibility of a slow recovery, we considered the potential need to deploy additional resources and asked the Bank Group to review the financial capacity, including the capital adequacy, of IBRD and IFC, and the adequacy of the concessional resources going to IDA countries, for our further consideration at the 2009 Annual Meetings."
October 5, 2009	"We welcomed the progress in examining measures to improve the Bank Group's financial capacity and sustainability. We committed to ensure that the Bank Group has sufficient resources to meet future development challenges, and asked for an updated review, including on the Bank Group's general capital increase needs, to be completed by Spring 2010 for decision."
April 25, 2010	"The Bank Group must remain financially strong. We endorsed a general capital increase for IBRD of $58.4 billion of which 6percent, or $3.5 billion, would be paid in capital, as set out in the paper Review of IBRD and IFC Financial Capacities. We further endorsed related matters contained in that paper as well as in Synthesis Paper-New World, New World Bank Group, including a reform of loan maturity terms to be discussed at the integrated financial review in June 2010."

Sources: Development Committee Communiqués, dates as above.

only come from front-loading the lending or through mobilization of additional donor resources through special trust funds in the context of the IDA Fast-Track Facility and the Vulnerability Financing Facility. Though the former was generally well received, the latter bred controversy and confusion at the outset, undermining the Bank's leadership, both internally and externally.

An external debate concerned the Bank proposal at the G-20 Meetings in March 2009 that advanced countries should contribute 0.7 percent of their stimulus packages to a Vulnerability Fund for development. This idea was received positively by many developing countries, because the Bank was speaking for them, but not by many advanced economies and IDA deputies, some of whose governments were not in a position domestically to contribute. They also saw the proposal as conflicting with the IDA replenishment program. Instead, they were looking for the Bank to pursue targeted safety net programs that might be used in conjunction with DPOs. In due course, the proposed Vulnerability Fund was overtaken by the Vulnerability Financing Framework, which came to include the existing Global Food Response Program and a new Rapid Social Response Program, as discussed earlier in this chapter in the context of box 3.1. Alongside these developments, some IDA deputies also were pushing for an IDA crisis-response window, which was ultimately agreed and funded as a pilot for IDA15—after management found additional funds that could be allocated for crisis support outside the performance-based system—to be considered for possible mainstreaming in IDA16 (see World Bank 2010e).

Operational Budgets and Productivity

The Bank budget for country services rose at an annual (nominal) rate of 5 percent in fiscal 2009–10 (appendix table A13). This is small relative to the increase in lending, and raises questions about its adequacy for sustaining quality. Preliminary analysis suggests that when productivity is measured on a per-dollar-lent basis—by the elasticity of lending volumes with respect to the Bank budget for country services—it rose sharply in fiscal 2009 and 2010 (by about 50 percent per year). However, when measured on a per-project basis, productivity in fiscal 2009–10 was more in line with historical averages. By both measures, the productivity increase was concentrated in lending preparation, compared with supervision and AAA, although the shares of supervision and AAA in country services budgets have increased relative to lending preparation. The increase in the supervision budget share may be related to the surge in use of loan supplements (additional finance), which started in fiscal 2007 and continued throughout fiscal 2009–10, primarily for investment loans.[18] The increase in the share of AAA may be related to the surge in DPOs. But in both cases, more analysis (and data) is needed for a fuller assessment.

The difference between the two productivity measures reflects a doubling of the average project size between fiscal 2007–08 and 2009–10. This included the doubling of IBRD loan size and a 31 percent increase in IDA credit size. For the IBRD, the increased loan size was in both DPOs and investment lending, as discussed earlier. However, the increase in IBRD investment loans in fiscal 2009 offset a decline in fiscal 2008; hence, the main increase was for DPOs. The analysis

TABLE 3.4 World Bank Operational Productivity for New Lending

Fiscal year	Lending (US$ billions)	Projects (number)	Average project size (US$ millions)	Country services budget (US$ millions)	Productivity (projects per US$1 million in budget)	Productivity (US$ lent per US$1 million in budget)
2001	17.8	254	70.3	402	.63	4.42
2002	19.6	244	80.5	493	.49	3.98
2003	18.6	260	71.5	526	.49	3.54
2004	20.2	258	78.2	589	.44	3.43
2005	22.3	298	74.9	590	.51	3.78
2006	23.6	298	79.3	619	.48	3.81
2007	24.7	320	77.3	616	.52	4.01
2008	24.7	319	77.4	658	.48	3.75
2009	46.9	329	142.6	685	.48	6.85
2010	58.7	385	152.6	725	.53	8.10

Source: World Bank data.

of changes from the lending plans in country partnership strategies highlights additional large loans in Indonesia, Mexico, and Ukraine. Case studies pointed to budget trade-off problems in Ukraine, but not in Indonesia or Mexico. For IDA, the increase in numbers of operations came in fiscal 2007–08. The number of IDA operations declined in fiscal 2009 by 11 percent compared with fiscal 2008, before partially recovering in fiscal 2010.

External Coordination

Country Counterparts

The main evaluation evidence on the effectiveness of the Bank's coordination with country counterparts comes from interviews with authorities in the 11 case study countries. It also includes feedback from LICs on the Bank's crisis response performance that was collected during the G-20 preparations in August 2009.[19]

The case study evidence presents a positive picture of the Bank's coordination with country counterparts, although there are exceptions. Authorities interviewed praised Bank staff for their specific expertise—especially in drawing on analytic work—genuine commitment to country ownership, and eagerness to help. In one noteworthy case, the authorities said that in the fiscal 1998–99 crisis, the Bank had been part of the problem, but in this crisis the Bank was part of the solution. However, there were complaints, especially related to timeliness and indecision, with the authorities of one country noting that the Bank loan had been approved only after the country no longer needed the funding.

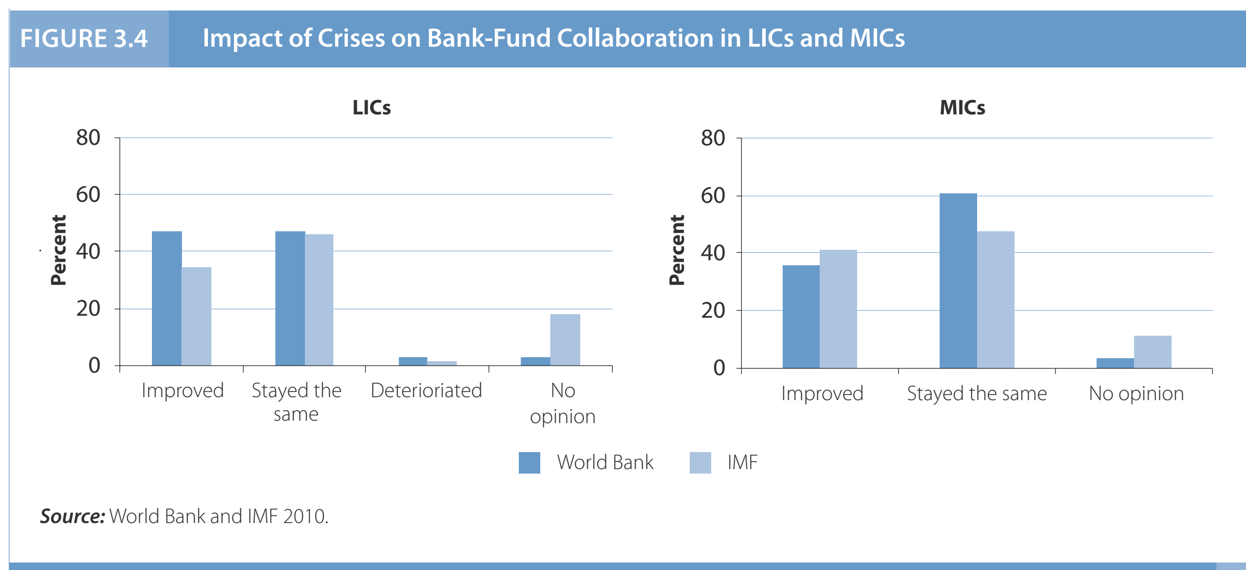
The consultations with LICs carried out in August 2009 in preparation for the G-20 meeting provide evidence of countries' appreciation of the Bank's response, but also of complaints about the speed of that response. Some participants complained about procedural delays, lack of flexibility in diverging from the Country Assistance Strategy, and the need for an IDA crisis window. For many participants, the effectiveness of the Bank's response compared unfavorably with that of the IMF and the regional development banks. Echoing a theme developed earlier in this chapter, the consultation report to the G-20 states: "It was suggested that although the World Bank responds quickly to crises, actual disbursement of financial support is often very slow."[20]

IMF

Bank-Fund collaboration, which had been a major problem during the East Asian crisis, appears to have been better this time. Indeed, the staff survey carried out for the recent Joint Management Action Plan on Bank-Fund Collaboration review found that 35–40 percent of Bank and Fund staff thought that the crisis had improved collaborations, with the remainder reporting no change or no opinion (World Bank and IMF 2010) (figure 3.4). The improvement appears to have reflected several factors. First, the Fund had moved quite substantially away from setting structural conditionality, removing an important area of tension between the staff of the two institutions. Second, the biggest staff disagreements during the East Asian crisis had been around programs in the Region; this time there were few such programs. Only Indonesia and Vietnam have IBRD DPOs, and neither of them have an IMF program (IMF programs concentrated on Eastern Europe, Central Asia, and Latin America—the last through flexible credit lines).

Third, fiscal space, which has usually been the source of much friction between Bank and Fund teams, has been less of a factor this time. This is due to the global consensus on the need for countercyclical policies and stimulus rather than belt-tightening, as well as the better fiscal and debt positions of many countries at the outset of the crisis. Finally, the division of labor between the two institutions on the Fi-

FIGURE 3.4 Impact of Crises on Bank-Fund Collaboration in LICs and MICs



Source: World Bank and IMF 2010.

BOX 3.5 WHAT LOW-INCOME COUNTRIES SAY ABOUT THE BANK'S CRISIS PERFORMANCE

Countries indicated that there is a need for the Bank to rationalize facilities, sectors, and projects within Country Assistance Strategies, to ensure greater coherence and prioritization, as well as higher contingencies within each Country Assistance Strategy and overall IDA envelopes to allow reallocation to confront crises or shocks.

It was suggested that the World Bank had been less responsive in the wake of the crisis, and their actions less visible, than the IMF and other regional institutions, especially in Africa, although the reverse may have been the case in Central America.

It was suggested that the World Bank, and IDA in particular, should have a crisis window, so that IDA could respond adequately and quickly in times of crises. Moreover, it was suggested that there should be greater clarification on the range of instruments available as well as the process of accessing them, because countries felt that that there had been poor information dissemination and discussion of the new mechanisms established to respond to the financial crisis.

Some countries felt the Bank's response to the crisis had been rapid and significant. However, many did not, because of delays in procedures, excessive conditions, and lack of transparency/predictability in decisions on which countries could access budget support. Countries also suggested allocating higher levels of World Bank funds to anti-shock budget support, making the recent increase permanent to help countries respond to all shocks, rather than just the current global crisis.

Overall, countries … urged an earlier and larger IDA replenishment but also agreement on a more permanent mechanism to fund fast-tracking/front-loading of resources in crises (both globally and for individual countries) without advancing replenishments, perhaps using IBRD resources. They also need to be able to access more IBRD funds, blended with IDA, for high-return public sector projects.

Very slow approval and disbursement processes and excessive numbers of missions are undermining the Bank's usefulness against the crisis. In terms of transaction costs and delay, the Bank is 'not very good at doing business.'

Countries reported mixed experiences relating to the timeliness of the World Bank's response to crises. Some countries had received financial support very rapidly, while others noted that World Bank support had been sluggish. It was suggested that although the World Bank responds quickly to crises, actual disbursement of financial support is often very slow.

Source: G-20 Chair Consultations of LICs on Flexibility and Adaptability of IFIs in Freetown (8/14/09) and London (8/17/09). http://www.development-finance.org/en/news/205-g20-consults-lics.html

nancial Sector Assessment Program, which had sometimes engendered acrimonious debate within the Bank-Fund Financial Sector Liaison Committee, was resolved by the two Boards in 2009, reaffirming the existing arrangements. Critical country-level work had continued relatively unimpeded throughout the period of debate, but with some remaining tensions (World Bank and IMF 2009).

Other Partners

The evidence also points to better coordination with other partners—especially at the country level. This included the regional development banks, bilateral and multilateral donors, UN agencies, and private charitable organizations. Though there is evidence of some tension in these relationships, they are far more productive than in earlier crises and reflect considerable progress.

IFC Response

IFC's strategic intention was to provide a timely and effective response, but this response was developed amid concerns about how the crisis might adversely affect IFC's financial capacity. In the pre-crisis years of fiscal 2005–08, IFC had recorded strong profits (average of $1.8 billion per year), which had enabled it to approximately double its investments and to commit to a transfer of $1.75 billion to IDA between fiscal years 2008 and 2010. The crisis changed IFC's income outlook, with the expectation of significant equity write-downs and a rising number of nonperforming loans—as had happened in past crises. IFC accordingly prioritized efforts to protect its existing portfolio and minimize losses.

Though its balance sheet was impaired by the crisis, IFC remained relatively well capitalized—well above Board targets. Allowing for a three-year crisis, IFC expected to support a modest countercyclical response through its own account and through new global partnerships. IFC experienced substantial equity write-downs on its portfolio, some $1 billion, but stayed well capitalized relative to Board requirements. IFC's capital adequacy ratio—retained earnings and general reserves compared with risk-weighted assets—fell from 48 percent to 44 percent between June 2008 and June 2009, but stayed well above the Board requirement of 30 percent (and also above similar ratios for highly rated commercial banks).[21]

External assessments endorsed this view. In February 2009, for example, Standard and Poor's reported that IFC had ample capital and liquidity, given the riskiness of its

investment portfolio and taking into account that, unlike other multilaterals, IFC did not have callable capital to draw on (Standard and Poor's 2009).

IFC conservatively projected a modest 5 percent increase in new business between fiscal 2009 and 2011, with mobilization of significant additional financing through new global initiatives. Recognizing that a prolonged recession could absorb more of the capital cushion, IFC conservatively estimated that it could invest around 5 percent more per year in fiscal 2009–11 than in fiscal 2008 ($12 billion, compared with $11.4 billion). IFC sought to supplement its own funds through new global initiatives, which would raise up to $24 billion between fiscal 2009 and 2011. The following section examines those global initiatives, then the actions taken through IFC's regular business (portfolio management and new business).

New Global Initiatives

To leverage its capital and its role, IFC designed a range of global crisis initiatives focused on mobilizing resources from governments and other development finance institutions (DFIs). As of June 2010, six of IFC's global crisis initiatives were active and three were in development. The active initiatives, involving expected financing of up to $29 billion ($5 billion from IFC) between fiscal 2009 and 2012, are as follows:

- ***Trade*** (Global Trade Liquidity Program, GTLP): In this program of up to $5 billion, IFC and its program partners—including the Department for International Development, the Commonwealth Development Corporation, and the African Development Bank (AfDB)—share risk on the trade portfolios of major international banks or short-term loans to smaller or regional banks without the risk-sharing component. This complements an expansion in the existing Global Trade Finance Program (GTFP), set up in 2005 to provide risk mitigation for counter-party bank risk on trade transactions. Both platforms are run by IFC teams.

Photo courtesy of Guiseppe Franchini/World Bank.

- ***Microfinance*** (Microfinance Enhancement Facility): This $500 million facility is expected to provide loan refinancing to more than 100 strong microfinance institutions in up to 40 countries (including 20 IDA countries). The financing, from IFC, the German Development Bank (KfW), and other development partners (including the European Investment Bank and Austrian, Dutch, German, Swedish, and OPEC DFIs), is intended to support lending by microfinance institutions of up to $84 billion to as many as 60 million low-income borrowers by 2014. The facility is being run by three external fund managers: Blue Orchard Finance, Cyrano Fund Management, and ResponsAbility Social Investments AG.
- ***Bank Capitalization*** (IFC Capitalization Fund): This global equity and subordinated debt fund of up to $3 billion (originally $5 billion) is overseen by a newly created IFC subsidiary, the Asset Management Company,[22] which aims to support banks with systemic impact.[23]
- ***Infrastructure*** (Infrastructure Crisis Facility): This debt facility of up to $8 billion and equity fund of up to $2 billion, both managed by third parties, is intended to support about 100 viable privately funded infrastructure projects facing temporary financing problems. The facility also anticipated an advisory services component to help governments design or redesign public-private partnerships.
- ***Debt and Asset Recovery Program:*** This IFC-run program of $6–8.5 billion includes direct debt, quasi-debt, and equity investments to directly support corporate debt restructuring as well as investments in nonperforming loan pools.
- ***Advisory Services:*** Alongside relevant ongoing activities, IFC is aiming to raise $30 million of new donor funding to help improve the financial infrastructure and enhance risk management through government and firm-level interventions.

The initiatives were structured as a three-phase chronological approach to tackling the crisis. In the first phase, IFC concentrated its efforts on providing access to short-term liquidity, particularly through its trade finance programs (GTFP and GTLP), with the understanding that short-term liquidity would be needed to stave off the decline in real sector production, and thus reduce the likelihood or severity of longer-term liquidity-related impacts.

The second phase of the strategy focused on providing longer-term liquidity and equity capital to select sectors and market segments. This was designed to reduce solvency issues that come about through prolonged limited access to credit. IFC accordingly launched the Infrastructure Crisis Facility (ICF), the Microfinance Enhancement Facility (MEF), and the IFC Capitalization Fund in early 2009.

BOX 3.6 EXAMPLES OF PROJECTS ORIGINATED THROUGH THE IFC CRISIS INITIATIVES

GTFP: Trades supported include shipments of paper from Indonesia to Nigeria, textiles from China to Bangladesh, milled flour from Egypt to Sierra Leone, car tires from Turkey to Azerbaijan, peas from Ukraine to the West Bank and Gaza, wheat from Russia to Pakistan, and motor vehicle parts from Brazil to Bolivia. Median guarantee value is around $150,000.

GTLP: Projects include a $500 million investment to share the risk with Standard Chartered Bank on its trade finance portfolio through the purchase of 40 percent of eligible pools of their short-term trade receivables, so that the bank can scale up its trade finance activities. GTLP has also supported a $100 million, 1-year unsecured loan to Standard Bank of South Africa to support liquidity for trade finance, including but not limited to supporting trade of consumer and intermediate goods as well as smaller machinery and commodities in the region. This line recently supported an award-winning cocoa deal in Nigeria.

Bank Capitalization: Projects include a $61 million equity investment in Komercijalna Banka, Serbia, a bank with 8 percent market share. The bank is seen as systemically important, but it is facing capital constraints due to the crisis. Other IFIs (European Bank for Reconstruction and Development, Swedfund, and the German development bank DEG) have also participated in the recapitalization.

Microfinance: Projects include a $3 million loan to Fondo de Desarrollo Local, a Nicaragua microfinance institution, to maintain its lending in the crisis.

Infrastructure: A port project in Vietnam, originally approved in 2007, became vulnerable when the country was hit with country-specific shocks and the global crisis. IFC helped the project sponsors restructure the $155 million debt-financing package, including a contribution of $10 million from the Infrastructure Crisis Facility. Expected long-term impacts include increased container capacity, relieving congestion in and around Ho Chi Minh City, and cost savings through the ability to handle larger container ships.

Debt and Asset Recovery: The platform has supported a $5 million equity investment to support creation of a debt resolution capacity in Colombia, which would increase the liquidity available to participating financial institutions and contribute to the development of a nonperforming loan market.

Advisory Services: As of June 2010, IFC had organized 47 banking sector workshops and conferences in 28 countries, covering 280 banks, to share knowledge on risk management and nonperforming loan resolution, and has engaged in diagnostics and in-depth advisory work with 27 banks in Europe and Central Asia, the Middle East and North Africa, Latin America and the Caribbean, and Africa.

Source: IEG.

The third phase of the response strategy is intended to accelerate the recovery. The main focus intended for this third phase is the resolution of troubled assets, debt refinancing, and debt restructuring. With this goal in mind, in August 2009 IFC created the Distressed Asset Recovery Program. Box 3.6 provides some examples of projects supported by the IFC crisis initiatives.

The phased approach notwithstanding, relative to progress indicators that IFC established at the outset for the new initiatives, implementation is well behind schedule. By the end of fiscal 2010, IFC expected to have deployed $6.1 to $8.1 billion through the initiatives. As of June 30, 2010, around $9.2 billion had been mobilized for these initiatives (about half from partners), with $2.8 billion actually committed but only $1.9 billion disbursed (table 3.5). Of the new initiatives, the GTLP is the only one anywhere close to target, with roughly two-thirds of the low-end target for deployment—in this case expected to be achieved by October 2009—committed at the end of June 2010 and around one-half actually disbursed. Figure 3.5 shows the pace of implementation of the initiatives quarter by quarter, indicating that implementation speed is gradually picking up.

Regional Initiatives

At the Regional level, IFC has participated in joint initiatives with other IFIs in Europe and Central Asia, Latin America and the Caribbean, and Sub-Saharan Africa. These initiatives have relied less on new crisis products than envisaged:

- ***Europe and Central Asia:*** IFC is part of a joint IFI Action Plan for Central and Eastern Europe aimed at supporting banking sector stability and lending to the real economy in the region. Under the Action Plan, launched in February 2009, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank Group (EIB), and the World Bank Group pledged to provide up to €24.5 billion and deploy rapid, coordinated assistance according to each institution's geographical and product remit. IFC promised to provide up to €2 billion, intervening mainly through its crisis-response initiatives, to complement its traditional investment and advisory services in the region. As of

TABLE 3.5 **IFC's Crisis Initiatives: Funding and Deployment**

Initiative	Funding		Deployment		
	Target	Actual mobilization	Target (by end fiscal 2010)	Actual commitments (6/30/10)	Actual disbursement (6/30/10)
Global Trade Finance Program (GTFP)	Annual program ceiling raised to $3 billion	N/A (supported by IFC capital base)	N/A (unfunded guarantee program)	$5.8 billion	N/A
Global Trade Liquidity Program (GTLP)	Up to $5 billion	$1.45 billion, partners $1 billion IFC	$3 to 5 billion[a]	$1.9 billion	$1.5 billion
IFC Capitalization Fund	Up to $3 billion (originally $5 billion)	$2 billion JBIC $1 billion IFC	$1.6 billion	$395 million	$208 million
Microfinance Enhancement Fund	$500 million	$292 million, partners $150 million IFC	$0.47 billion	$122 million	$92 million
Infrastructure Crisis Facility	Up to $10 billion ($8 billion debt and $2 billion equity)	$1 billion, partners $300 million IFC	$0.52 billion[b]	$45 million	$12.3 million
Debt and Asset Recovery Program	$6–8.5 billion	$300 million, partners $1.6 billion IFC	$0.5 billion	$300 million	$69 million
Advisory Services	$30 million (revised down from $60 million)	$16.1 million, partners	$20 million	$10.7 million	$2.7 million
Total new partnerships[c]	$24.5 to 27 billion	$9.2 billion	$6.1 to 8.1 billion	$2.8 billion	$1.9 billion
Percent of target		35		46	31

Source: IFC.

Note: Amounts as of June 30, 2010. Table does not include parallel financing for GTLP ($1.5 billion, from Japan Bank for International Cooperation) and the Infrastructure Crisis Facility ($3.5 billion).

a. In March 2009, the IFC anticipated full deployment of $3–5 billion by October 2009.

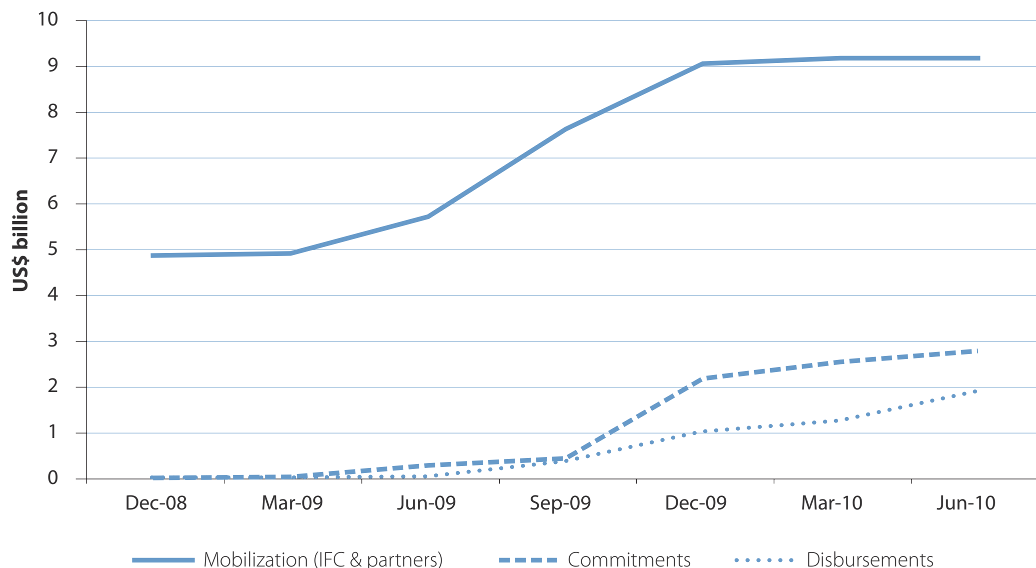
b. In December 2008, IFC described a "satisfactory" result as 40 percent of committed capital invested within one year—$0.52 billion is 40 percent of $1.3 billion.

c. Excludes GTFP, as (i) an existing program that was extended, and (ii) given its unfunded guarantee nature.

June 2010, IFC had committed approximately $2.2 billion, mainly through traditional means ($1.4 billion), as opposed to the new initiatives ($780 million). The Action Plan includes efforts to coordinate national support packages and policy dialogue among key stakeholders in the region, in close collaboration with the IMF, the European Commission, and other key European institutions. This effort, the European Bank Coordination Initiative (informally known as Vienna Initiative), is a novel public-private platform for policy dialogue and crisis management coordination.

- ***Latin America and the Caribbean:*** The Multilateral Crisis Initiative for Latin America and the Caribbean, launched in April 2009, was organized to pool global financing from public and private sources and to scale up crisis-response initiatives.[24] Partners in this initiative are the IBRD, the Caribbean Development Bank, the Central American Bank for Economic Integration, the Andean Development Corporation (*Corporacion Andina de Fomento*), and the Inter-American Development Bank. Together, the IFIs have pledged to provide up to $90 billion to support the private sector in Latin America and the Caribbean. IFC's expected contribution is $7.8 billion for fiscal 2009 and 2010, covering facilitating trade through the GTFP and GTLP; strengthening the financial sector using the IFC Capitalization Fund; improving infrastructure through the Infrastructure Crisis Facility; and increasing microfinance lending. IFC has fallen short of the $7.8 billion goal. The two-year total for investment lending in Latin America and the Caribbean reached $5.5 billion, with roughly two-thirds of this amount coming from its routine operations ($3.5 billion), and one-third from crisis initiatives such as the

FIGURE 3.5 Implementation of IFC's Global Crisis Initiatives



Source: IFC.

GTFP, the Microfinance Enhancement Fund (MEF), and the IFC Capitalization Fund ($2.0 billion).

- ***Sub-Saharan Africa:*** The Joint IFI Action Plan for Africa, launched in May 2009, is designed to leverage additional financing, protect important ongoing programs, and support investment-ready initiatives. Other participants include the AfDB, AFD, EIB, KfW and DEG, Proparco, the Development Bank of Southern Africa (DBSA), the Islamic Development Bank (IsDB), and the Netherlands Development Finance Company (FMO). Under the plan, commitments to the Region are expected to be increased by at least $15 billion through 2012. Of this, IFC is expected to contribute at least $1 billion to facilitate trade, mainly through the GTFP and GTLP; strengthen the capital base of banks using the IFC Capitalization Fund; improve infrastructure, including through the Infrastructure Crisis Facility; increase microfinance and small and medium enterprise (SME) lending; and promote agribusiness. To date, implementation under the trade finance initiatives has been solid, with several major global and regional banks signing up with the GTLP, including Standard Bank of South Africa and Afreximbank, and increasing GTFP volumes. A specific Africa capitalization fund with funding from the AfDB, the EIB, and the OPEC Fund for International Development, alongside IFC, has also been launched. Under the microfinance pillar, MEF is expected to disburse about 10 percent of its funding to projects in Africa (no commitments to date) and the Regional Micro, Small, and Medium Enterprises Investment Fund for Africa, which is solely focused on Sub-Saharan Africa, is pending commitment by IFC.[25]

Core Business Response

Prior to the crisis, IFC set out a two-sided core business approach to a possible downturn: countercyclical investments, particularly in MICs, and prudent management of the portfolio. The corporate strategy of early 2008 envisaged proactive countercyclical support for companies facing liquidity constraints in order for them to continue to do business during the crisis. The strategy also pointed to the need for prudent portfolio management, focusing on careful supervision of at-risk investments to maintain the health of IFC's balance sheet. As part of the annual strategy exercise, industry and Regional departments were asked to draw up countercyclical plans, including both more proactive risk taking and hedging strategies, as well as consideration of how advisory services could be deployed in support of investment clients (IFC 2008).

As in past crises, IFC's initial core business response was largely defensive: to minimize losses and protect the financial sustainability of its portfolio. IFC assigned investment staff usually engaged in new business to portfolio work. This was especially true in IFC's relatively large financial sector portfolio, where the ratio of new business to portfolio management staff fell from five to one in 2008 to two to one in 2010. Both the real and infrastructure sectors also saw shifts of staff to portfolio management, though of a lesser magnitude (table 3.6). With this extra support, IFC carried out stress testing of its portfolio of clients in each Region (the financial sector

TABLE 3.6	Staff Mix in IFC Investment Operations, 2008–10		
Fiscal year	New business	Portfolio management	Ratio
	Full-time equivalent staff members		
2008	367.1	72.5	5.1
2009	407.0	111.9	3.6
2010	543.0	160.5	3.3
	Ratio of full-time equivalent new business: portfolio management staff		
	Real sector	Infrastructure	Financial markets
2008	5.1	5.4	4.5
2009	3.5	4.6	2.8
2010	4.0	4.2	2.3

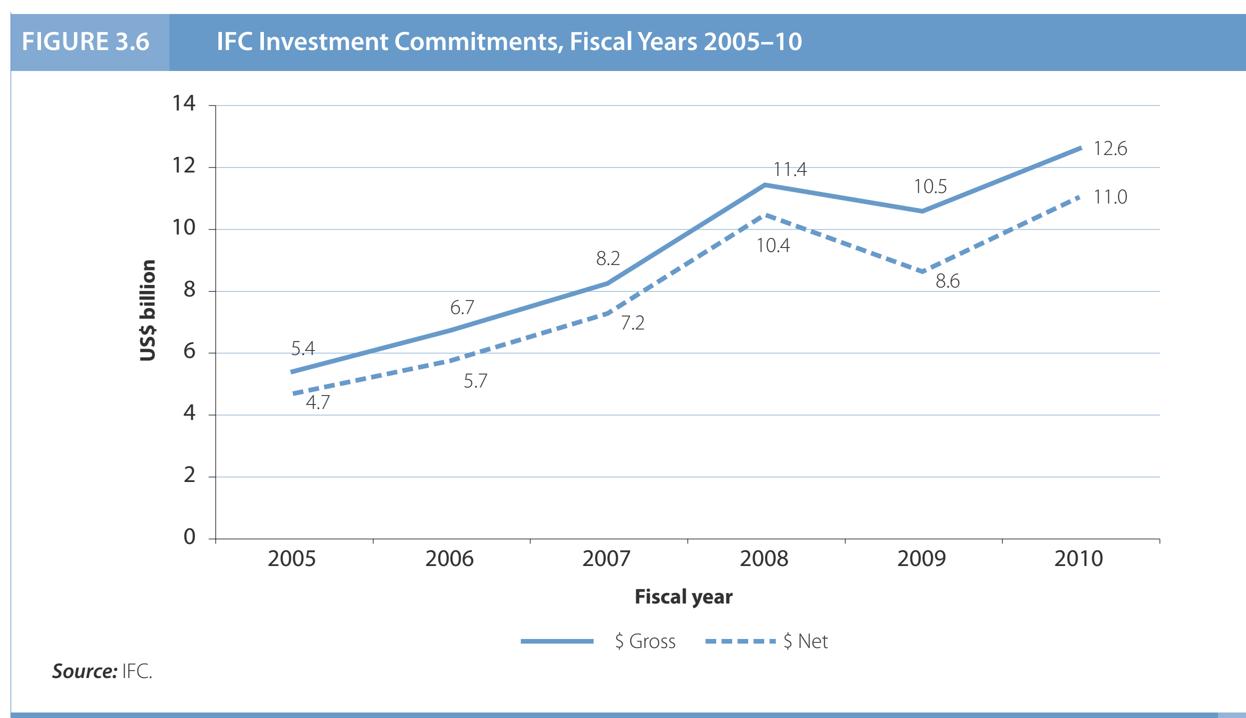
Source: IFC.

Note: Includes staff involved in IFC Investment Operations (charged to a project) who are grade F2 and above.

first, then the real sector). Highlighting IFC's determination to ensure the profitability of its portfolio and help clients cope with the crisis, in the early months of the crisis, senior managers visited all IFC's main clients in the field to extend their support and advice. In department scorecards, greater attention than before was given to portfolio management quality, which was made into a focus indicator.

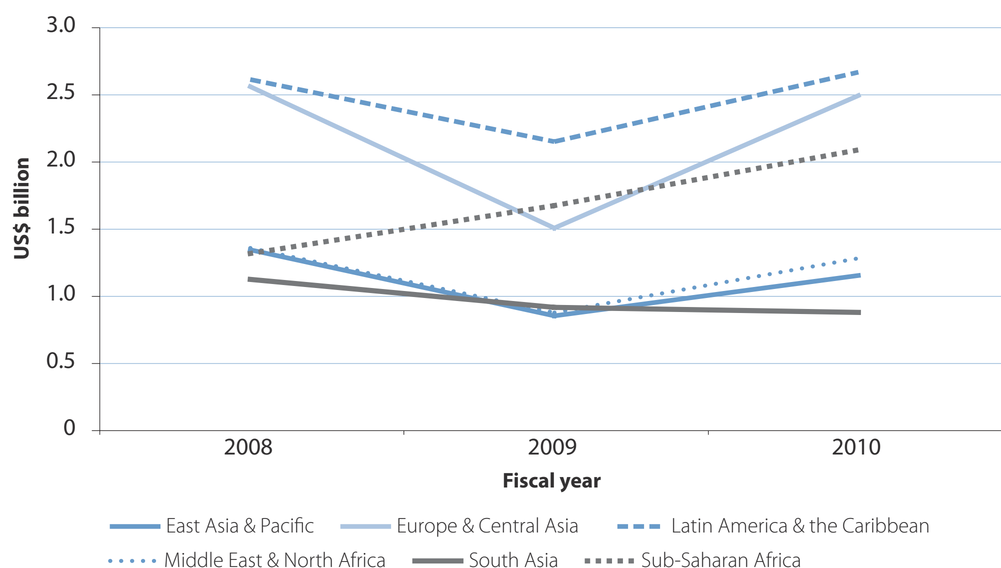
New IFC business activity, which had more than doubled from 2005 to 2008 (figure 3.6), like private capital flows overall, slowed considerably as the crisis took hold. Given the uncertainty associated with the impact of the crisis on IFC's balance sheet, volume targets for new business in fiscal 2009 were suspended.[26] Pricing was also changed to reflect revised country-risk perceptions. The volume of new business dipped sharply in the middle of the fiscal year, especially in Europe and Central Asia and Latin America and the Caribbean, as deals in the pipeline were put on hold or dropped. IFC's gross commitments fell to $10.5 billion in fiscal 2009 from $11.4 billion in fiscal 2008, and was some $1.5 billion less than IFC was aiming to achieve ($12 billion).[27] Factoring in canceled projects, sales, and conversions, net commitments were $8.6 billion in fiscal 2009, a fall of 18 percent from the previous year. In fiscal 2010, new business increased by 28 percent, exceeding the level achieved in fiscal 2008.

FIGURE 3.6 IFC Investment Commitments, Fiscal Years 2005–10



Source: IFC.

FIGURE 3.7 Net IFC Commitments by Region, Fiscal Years 2008–10

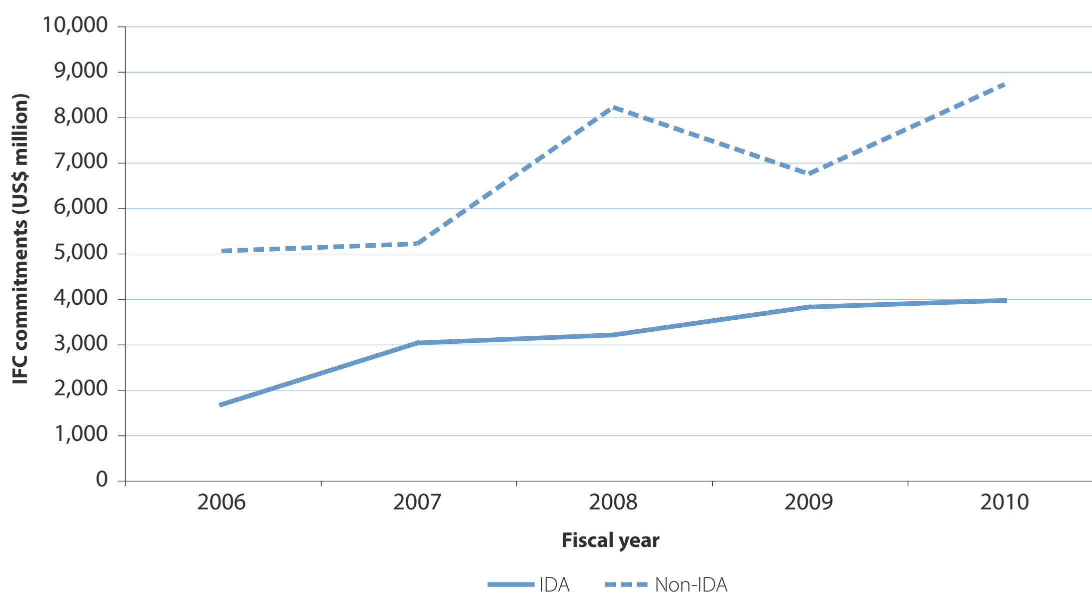


Source: IFC.

The pattern was consistent across Regions, with the exception of Sub-Saharan Africa, where new business increased. In most Regions, IFC's new business between fiscal 2008 and 2010 was v-shaped, with an especially deep dip in the Region hardest hit by the crisis, Europe and Central Asia (figure 3.7). Sub-Saharan Africa was the notable exception; the pre-crisis upward trajectory of new business was maintained in fiscal 2009 and 2010.

IFC's IDA focus was maintained during fiscal 2009–10, with investment volume in IDA countries increasing 24 percent between fiscal 2008 and 2010, from $3.2 to $4 billion. During fiscal 2009, nearly a half of new commitments (by number of projects) were in IDA countries (IDA and IDA blend). Conversely, IFC's investment volume in larger non-IDA countries fell in fiscal 2009, with volumes only picking up in the last quarter of fiscal 2010, and thereby helping the

FIGURE 3.8 Net IFC Commitments by IDA Status, Fiscal Years 2006–10



Source: IFC.

TABLE 3.7 Countries with Largest Net Commitment Changes by IDA Status

Country grouping	Top 5 countries with increases (July 2007 –Sept. 2008 versus Oct. 2008 –Dec. 2009)	Top 5 countries with decreases (July 2007 –Sept. 2008 versus Oct. 2008 –Dec. 2009)
IDA/IDA blend	1. Ghana ($293 million)	1. India (–$395 million)
	2. Pakistan ($263 million)	2. Sri Lanka (–$169 million)
	3. Georgia ($139 million)	3. Nigeria (–$109 million)
	4. Vietnam ($82 million)	4. Kenya (–$90 million)
	5. Congo, Dem. Rep. ($55 million)	5. Cambodia (–$74 million)
Non-IDA	1. Panama ($306 million)	1. Philippines (–$556 million)
	2. Kazakhstan ($268 million)	2. Russian Federation (–$492 million)
	3. Romania ($216 million)	3. Turkey (–$372 million)
	4. Iraq ($106 million)	4. Argentina (–$325 million)
	5. Chile ($99 million)	5. Peru (–$318 million)

Source: IFC.

annual figure for fiscal 2010 to edge above the level achieved in fiscal 2008 (figure 3.8). Table 3.7 shows the main individual country shifts within the IDA/IDA blend and non-IDA country groupings in the first 15 months of the crisis, between September 2008 and December 2009. Box 3.7 offers several examples of IFC's activities in each of the countries during the crisis period.

The crisis accelerated a trend in IFC toward short-term financing, which had been valuable but relatively limited in past crises (IEG 2008a). Where new business was pursued, it increasingly involved short-term trade finance guarantees through the GTFP, which use up less capital when committed (about half of that required for a loan), and thus put less pressure on the balance sheet.[28] The volume of GTFP transactions more than doubled between fiscal 2008 and 2010, while the volume of loans fell by around 20 percent. Equity commitments were relatively stable, and these patterns continued into fiscal 2010. The dramatic shift in instrument mix over the crisis period is shown in figure 3.9. GTFP commitments rose from 14 percent of IFC's new commitments in fiscal 2008 to 31 percent in 2010.

By sector, in keeping with the increase in trade finance, there has been a significant shift in the balance of resource allocation toward financial sector investments. There has been a substantial decline in infrastructure and real sector investments, both in absolute and relative terms (figure 3.10). Within these clusters, physical infrastructure (particularly electric power) and food and agribusiness (agriculture and forestry in particular) investments declined most during the crisis period (table 3.8).

A significant difference with past crises is that IFC has a larger knowledge services capacity, supported mainly by donor contributions and IFC-retained earnings that were set aside during the boom years.[29] Over 1,200 staff are involved in the delivery of advisory services, compared with less than 100 at the time of the Asian Crisis in the late 1990s. The vast majority of IFC advisory services staff are

BOX 3.7 EXAMPLES OF IFC'S CRISIS-PERIOD INTERVENTIONS IN IDA AND NON-IDA COUNTRIES

IDA/IDA blend:

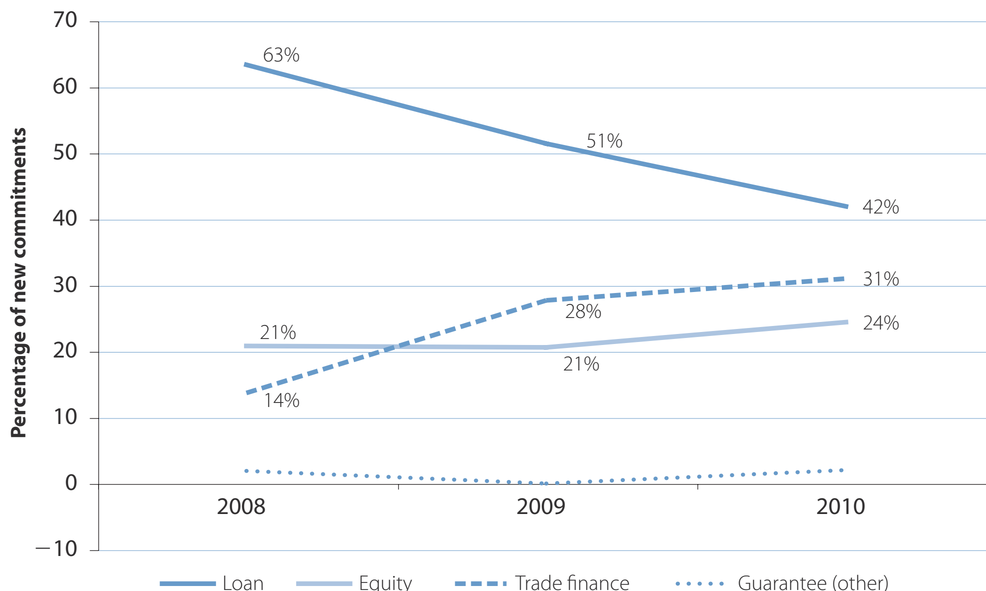
Georgia - $170 million in loans to two systemic banks, TBC and Bank of Georgia (to which IFC also provided interest rate swaps and trade lines)
Ghana – $215 million in loans to help Kosmos Energy and Tullow Oil develop the Jubilee offshore oil and gas field
Pakistan and Vietnam – Significant increases in support for trade finance through the GTFP.

Non-IDA:

Indonesia, Philippines, and Turkey – A highly selective approach to new investments, which resulted in a sharp slowdown in new business
Kazakhstan – A doubling in investments and a continuation of advisory support to the financial sector.

Source: IFC.

FIGURE 3.9 IFC Instrument Mix, Fiscal Years 2008 –10

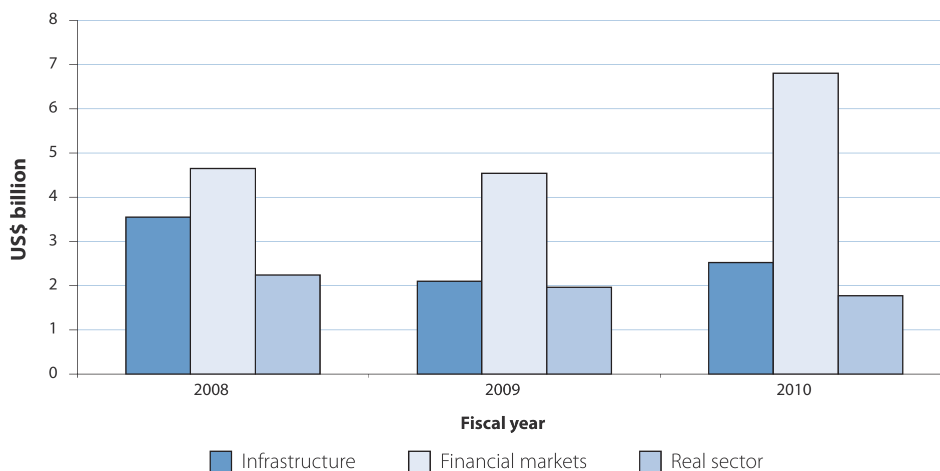


Source: IFC.

based in the field (80 percent), which has afforded IFC the opportunity to adapt its operations to help address the crisis needs of clients. Through a special initiative, IFC has begun a line of work geared toward resolution of the nonperforming loans of financial intermediaries, which were expected to rise dramatically as a result of the crisis, and another aimed at establishing insolvency regimes.

Additional crisis support through increased advisory services expenditures has been modest, although many ongoing activities have been relevant to the crisis. Overall, IFC advisory services expenditures increased from $269 million in fiscal 2008 to $291 million in 2009, and were $268 million in fiscal 2010. New approvals fell by around half in fiscal 2009, although this largely reflects the end of the five-year funding cycle in Sub-Saharan Africa. Also, in many cases activities could be funded and delivered from existing projects, rather than requiring new projects to be approved. Special crisis-response initiative expenditures have been relatively small to date, at $13 million, although many ongoing activities were linked to crisis needs, such as corporate governance support to financial institutions in

FIGURE 3.10 Net IFC Commitments by Industry Cluster, Fiscal Years 2008 –10



Source: IFC.

TABLE 3.8 Changes in Net IFC Commitments by Subsector

Department	Sum of June 2007–September 2008 (US$)	Sum of October 2008–December 2009 (US$)	US$ Increase	Percentage increase
Funds	566,315,703	839,586,030	273,270,327	48.3
Finance	5,259,294,028	5,569,060,750	309,766,722	5.9
Health and Education	282,504,917	252,882,056	–29,622,861	–10.5
General Manufacturing and Services	1,355,263,867	1,200,097,693	–155,166,174	–11.4
Oil, Gas, and Mining	839,828,807	589,682,150	–250,146,657	–29.8
Chemicals	313,400,588	218,693,291	–94,707,297	–30.2
Infrastructure	2,967,799,037	1,721,032,162	–1,246,766,875	–42.0
Electric Power	1,653,617,868	589,052,071	–1,064,565,797	–64.4
Information	474,966,904	508,029,315	33,062,411	7.0
Transport	841,661,098	568,265,225	–273,395,873	–32.5
Utilities	–2,446,833	55,685,551	58,132,384	NA
Food and Agribusiness	750,904,067	367,768,730	–383,135,337	–51.0
Agribusiness and Forestry	533,925,249	216,251,708	–317,673,541	–59.5
Food and Beverages	216,978,818	151,517,022	–65,461,796	–30.2
TOTAL	12,335,311,014	10,758,802,862	1,576,508,152	–12.8

Source: IFC.

Note: NA = not applicable.

Nigeria and Europe and Central Asia, trade finance advice in Bangladesh, risk management support to microfinance institutions in Morocco, and insolvency and bankruptcy regime work in the Ukraine.

MIGA Response

MIGA's response to the crisis is built around—but not limited to—a new global Financial Sector Initiative that focused initially on the Europe and Central Asia Region. Under this initiative, which was discussed with the Board in March 2009, MIGA is providing extended support to financial institutions seeking political risk insurance on cross-border investments for recapitalization or liquidity support to their subsidiaries. Under this initiative, MIGA announced it would provide up to €2 billion in political risk insurance (gross exposure) to support capital flows into the Europe and Central Asia Region. Drawing on MIGA's ability to arrange reinsurance, this could commit up to $1 billion of MIGA net exposure in the Region. This initiative is part of the coordinated international response to the global financial crisis in the Region, specifically the Joint IFI Action Plan in Support of Banking Systems and Lending to the Real Economy in Central and Eastern Europe. As of the first quarter of fiscal 2011, MIGA had provided 11 guarantees for the recapitalization of 8 different banks by their parent institution, in 5 different countries, bringing MIGA's total cumulative support (gross exposure) under the Financial Sector Initiative to $1.5 billion. MIGA has reinsured about 44 percent of this, bringing its net exposure to about $840 million.

MIGA's guarantee volume has remained broadly unchanged since the crisis began. In line with the weakness in foreign direct investment flows, MIGA's new guarantee activity remained at trend levels during the crisis, with some $1.4 –$1.5 billion in new guarantees in fiscal 2009 and 2010, about the same as the years preceding the crisis, but falling short of MIGA's strategic target of $1.8 billion (table 3.9). At the same time, MIGA's gross outstanding portfolio of guarantees—a measure of the total guarantee coverage MIGA is currently providing for existing clients—rose steadily over the crisis period, reaching a peak level of $7.7 billion in fiscal 2010 (19 percent more than in fiscal 2008, the initial year of the crisis), as more investors held onto their guarantees and cancellations declined.

New guarantees issued became increasingly concentrated in the financial sector. MIGA's crisis response initiative resulted in a large share of its guarantee issuance concentrated in the Europe and Central Asia Region, and in the financial sector (table 3.10 and figure 3.11). In the 18 months between the onset of the crisis in September 2008 and March 2010, MIGA provided coverage to financial sector projects in the Europe and Central Asia Region for $1.6 billion, almost 86 percent of MIGA's guarantees issued in that period. Support for infrastructure fell sharply, from just over a third of guarantees in fiscal 2008 to only 8 percent in

TABLE 3.9	MIGA Projects and Guarantee Volume, Fiscal Years 2008 –10		
	2008	2009	2010
Gross new guarantees issued ($ billion)	2.1	1.4	1.5
Guarantees outstanding (gross exposure) ($ billion)	6.5	7.3	7.7
Number of new projects supported	23	20	16

Source: MIGA.

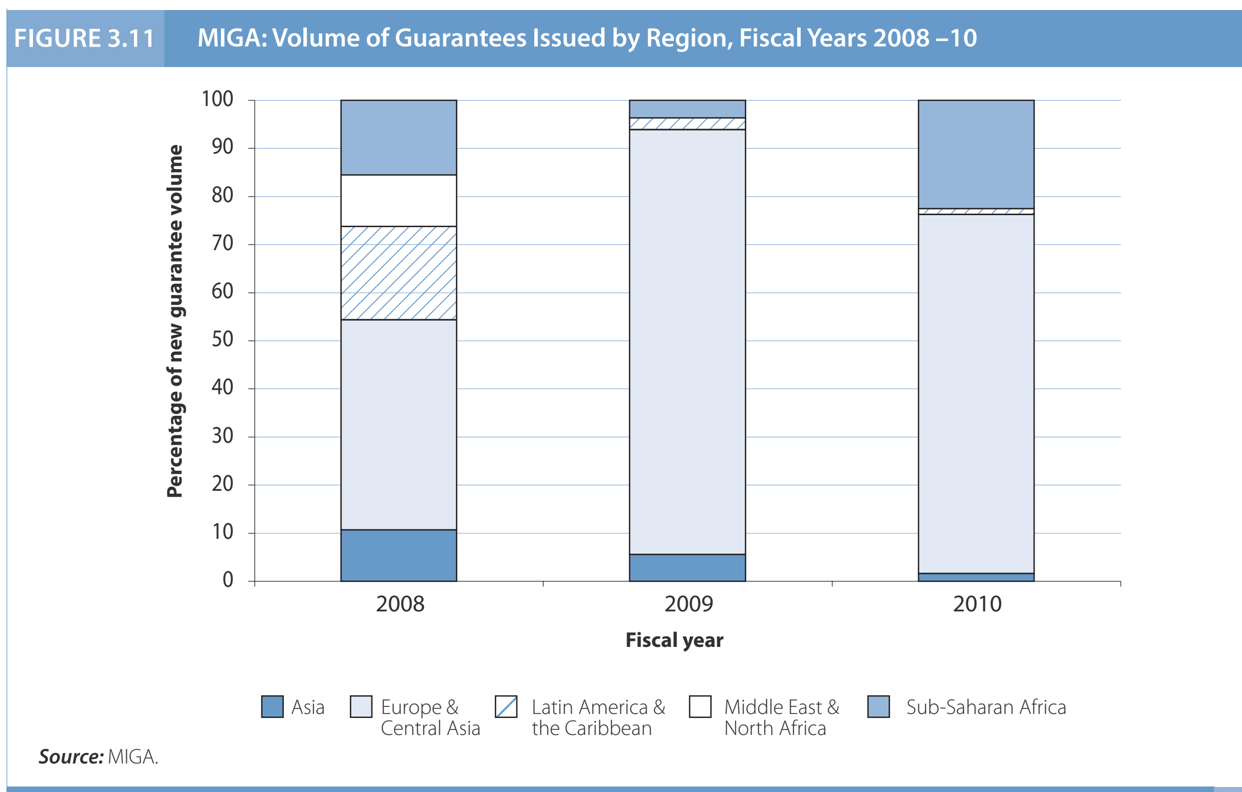
TABLE 3.10	MIGA: Volume of Guarantees Issued by Sector, Fiscal Years 2008 –10 (percent)		
Sector	2008	2009	2010
Finance	60	89	65
Agribusiness, Services, Manufacturing	4	3	8
Infrastructure	36	8	27

Source: MIGA.
Note: MIGA priority sector Infrastructure includes Oil, Gas, and Mining.

2009 and 27 percent in 2010, reflecting a weakening trend in foreign direct investment during the crisis. Guarantees in IDA countries and other MIGA priority areas (South-South investments, IDA, and conflict-affected countries) also declined as a share of guarantee volume. MIGA's guarantees became increasingly concentrated in terms of clients (guarantee holders), with the top two clients accounting for 80 percent of new guarantees issued in fiscal 2009.

MIGA's ability to respond to crises has been constrained by its Convention—which until its recent amendment has limited MIGA's ability to insure projects financed by freestanding debt or to insure financing of existing (brownfield) assets. MIGA's Convention was amended in July 2010, with effect from November 2010. This, together with MIGA's recently updated Operational Regulations, will allow greater product flexibility. MIGA also needs to address several major internal constraints to its business growth, including simplifying cumbersome business processes and revamping and refocusing its business development activities. The joint marketing agreement signed by IFC and MIGA in February 2009 is an important initiative, giving MIGA access to IFC's field presence and enabling cross-selling of services.[30] This agreement was followed up with an updated and enlarged cooperation agreement in March 2010 and with deployment of staff to IFC offices in Hong Kong and Singapore.

FIGURE 3.11 MIGA: Volume of Guarantees Issued by Region, Fiscal Years 2008 –10



Source: MIGA.

Chapter 4

Preceding chapters described the main features of the 2008–09 global economic crisis; its impact on developing countries, including the role of their starting conditions at crisis onset and the transmission mechanisms through which they were affected; as well as the objectives, components, and some detailed features of the Bank Group response. This chapter examines the quality of the Bank Group response, with respect to readiness, relevance, response delivery, and early results (to the extent they can be discerned at this stage).

Photo courtesy of Yuri Mechitov/World Bank.

Assessment of the World Bank Group Response

Preceding chapters described the main features of the 2008–09 global economic crisis; its impact on developing countries, including the role of their starting conditions at crisis onset and the transmission mechanisms through which they were affected; as well as the objectives, components, and some detailed features of the Bank Group response. This chapter examines the quality of the Bank Group response, with respect to readiness, relevance, response delivery, and early results (to the extent they can be discerned at this stage).

Because the increased volume of Bank Group financing during a crisis needs to be matched by quality to achieve results and ensure sustainability, this chapter also examines quality-at-entry aspects of Bank Group operations.

Assessment of World Bank Response

Relevance and Quality of the Response

Compared with the Bank's objectives for the response, achievements to date have varied. Overall, the assessment finds the following:

- **Response objectives were evident in the statements about the proposed lending increase, but Bank communications were less clear regarding what the increased lending was expected to achieve,** other than "protecting the vulnerable and maintaining public investment in infrastructure." The vagueness of these objectives did not provide operational criteria to guide the allocation of additional lending across countries and/or purposes.
- **The main component of the response—increased IBRD lending—was relevant, and the target was achieved and even exceeded, but compromises in quality are apparent in some operations.** The Bank's response to the sharp increase in demand was facilitated by the Bank's Crisis-Response Working Group, which allowed key internal stakeholders, including the Regional vice-presidencies, OPCS, and the Country Credit Risk Department, in consultation with senior management, to come together quickly on programs that could be supported by IBRD funding. Yet compromises are apparent in some operations, especially with respect to the gray area between providing financing to smooth consumption and investment and to protect the vulnerable, and providing financing as part of a liability-management operation.
- **The increase in Bank lending benefited all country groups, but tended to be greatest for countries that experienced the largest adverse impacts from the crisis.** As set out in chapter 3, when borrowing countries are divided into three groups according to the impact of the crisis, Bank disbursements—the more relevant measure of crisis response— to the 29 countries in the most-affected group increased by more than 113 percent; to the 36 moderately affected countries, it increased by 84 percent, and to the 51 least-affected countries, it increased by 31 percent.
- **The IDA response was much more limited than the IBRD response.** This was due to the more limited availability of resources for increasing financial support and the prior allocation of almost all such resources under the IDA performance-based allocation system. However, the IDA Fast-Track Facility did help to reduce processing times and to increase front-loading of fast-tracked operations.
- **Special-initiatives lending was the weakest part of the response.** Special-initiatives lending was limited (often involving the relabeling of existing lending), while the appeal to donors through the Vulnerability Financing Facility received a muted response, which reflected its limited preparation and inopportune timing—requesting funds when potential contributors were worried about domestic budgetary pressures.
- **The quality and continuity of engagement with a country was a critical factor in determining the readiness and relevance of the Bank's response.**
- **Analytical work at the institutional level did not feature among the objectives (or instruments) of the stated Bank response.** Nevertheless, a considerable amount of work was carried out by central units as well as by the Regions. For the Bank, this included contributions to global knowledge, such as DEC's analysis of

the poverty impact of the crisis, and Regional initiatives such as Europe and Central Asia's analysis of the effect of the crisis on pension systems and the Middle East and North Africa's work on social safety nets.

- **Analytical work at the country level played an important role, but there were gaps.** In some countries (Indonesia, Mauritius, Mexico, and Ukraine), earlier analytical work provided a platform for the World Bank response, in some cases in conjunction with international support packages. In a few other countries, the demands of increased lending crowded out new analytic work, while in still others the availability of trust funds allowed continuation of the work, and even increased attention to crisis-related issues. Where limited prior work was available, however, the quality of lending suffered.
- **Specific aspects of the crisis response (poverty orientation, work on the financial sector, donor coordination) showed that lessons from previous crises (particularly the East Asian crisis) were generally incorporated into the Bank Group response.** These aspects are discussed later in this chapter, based on the findings of a sample of country reviews.

Crisis Response Initiatives

The relevance of the Bank's crisis-response initiatives appears to have been limited, though they did provide high-profile contexts for engaging sector staff, clients, and partners in the crisis response. Several of these initiatives were launched in response to previous crises—in food and fuel—and were adapted as part of the response to the global economic crisis during late 2008 and 2009. Lending under the initiatives was closely associated with the overall lending increase, and it is difficult to ascertain their separate impact, either in aggregate or at the level of individual countries.

In terms of increased lending, by far the largest of the Bank's crisis-response initiatives was the Infrastructure Recovery and Assets Platform (INFRA), but it was less effective in increasing disbursements than non–initiative-based lending. The bulk of the increase in IBRD disbursements came from DPOs, often related to the crisis response in each country program. Most of the lending under the crisis-response initiatives (such as the lending for infrastructure) was investment lending with slow start-up implementation and limited disbursements during the crisis period. With capital constraints at the institutional level and exposure limits at the country level, the desirability of tying up large volumes of resources in slow disbursement operations is questionable.

The IDA Fast-Track Initiative, although moderate in size, was effective in addressing its intended objectives. The IDA response to the crisis was limited by the level of IDA resources available. The Fast-Track Initiative was relevant and addressed the timeliness of the IDA response within the overall financial limitations. Although the improvements in processing time and the number of operations involved were modest, this initiative was well designed and useful.

The attempt to mobilize donor financing through a Vulnerability Fund did not get off the ground. At the March 2009 G-20 meeting, when the Bank called for countries to provide 0.7 percent of their stimulus packages to a Vulnerability Fund, the response was lukewarm at best. The Bank subsequently changed course, and concentrated instead on the IDA16 replenishment, including pressing for the crisis-response window proposed by some of the IDA deputies.

Country-Level Response

To examine how the Bank took account of differential country exposure to the crisis, IEG focused on a sample of 11 countries—7 IBRD-only, 2 IDA-only, and 2 IBRD-IDA blend countries. The sample is not random. The

Photo courtesy of Scott Wallace/World Bank.

BOX 4.1 CASE STUDY COUNTRIES: CRISIS SEVERITY AND WORLD BANK AND IMF FINANCIAL SUPPORT

The table below shows the countries in the sample, as well as the importance of Bank and Fund financial support and the severity of the crisis as indicated by GDP growth (or decline) in 2009. The sample includes countries that received very high levels of Bank assistance, as well as those receiving moderate or low levels of special assistance in response to the crisis. Some of the countries in the sample also received substantial IMF support, while others received little or none.

Role of the World Bank and IMF in Response to the Crisis in Case-Study Countries

Bank role \ IMF role	Substantial	Medium	No IMF financing
Substantial	Mexico (MA) Colombia (MA)	Georgia (MA)	Indonesia (LA) Vietnam (ModA) Mauritius (LA)
Medium	Ukraine (MA) Hungary (MA)		Jordan (ModA) Bangladesh (LA) Nigeria (LA)

Source: IEG missions.

Note: MA = most affected. ModA = moderately affected. LA = least affected.

country selection reflects the evaluation team's interest in covering all six Bank Regions and countries experiencing a variety of crisis conditions. The findings below have been distilled from IEG's country case–study analyses, which included extensive interviews with country authorities, country teams, and partners, in most cases in the context of country visits, and careful reading of the documentary evidence pertaining to the operational relationship with the country.

Five of the 11 case study countries experienced severe crises, with negative GDP growth in 2009, and 2 others experienced moderate crises; the remaining 4 case study countries were less affected, though they all faced crisis risks. The Bank provided substantial financial assistance to six case study countries, four (Colombia, Hungary, Mexico, and Ukraine) received substantial IMF crisis-related financial assistance, and one (Georgia) received a Stand-By Arrangement (see box 4.1). Four countries in the sample experienced moderate crisis impacts, with lower GDP growth in 2009 than in previous years, but not substantially so. For these countries, the Bank provided high levels of assistance in two cases and moderate levels in the other two.

The countries entering the crisis with macroeconomic imbalances suffered a severe setback. Although the majority of developing countries had improved their macroeconomic performance substantially during the 2000s, some of them, particularly in Central and Eastern Europe, were experiencing severe external imbalances and asset bubbles. The three countries in the sample with these problems were Georgia, Hungary, and Ukraine (although in Georgia's case, the problem was largely associated with the military conflict in August 2008).

Vietnam is a partial exception. Although its economy was overheated by end-2007 and had severe external imbalances, the decline in growth was moderate (from 8.5 percent in 2007 to 5.5 percent in 2009). The government had introduced a stabilization policy package by mid-2008 (and averted a financial crisis at that time). By late 2008, when the global crisis reached Vietnam, the government switched quickly to an expansionary stance. The stimulus package was phased out, starting in late 2009. Rapid policy responses, together with continuing high support from the donor community, including increases in financing from the Bank, the Asian Development Bank (ADB), and Japan, helped avoid a bigger slow-down in growth. Vietnam's underlying external imbalances still pose some risks for the post-crisis period.

Most of the countries entering the crisis with relatively sound macroeconomic fundamentals suffered only moderate or negligible impacts. This includes countries as diverse as Bangladesh, Indonesia, Mauritius, and Nigeria. The major exception is Mexico, which entered the crisis with strong macroeconomic performance and policies but suffered a major recession as a result of the crisis. GDP declined by more than 7 percent in 2009, largely due to the country's proximity to the United States and linkages with the U.S. economy. At the same time, Mexico's strong macroeconomic stance prior to the crisis allowed it to receive the first IMF Flexible Credit Line (for $47 billion), while the reduction in Bank exposure during the previous decade (from $11 billion in 2000 to $4.7 billion in 2007) allowed for a large increase in Bank lending. By end-2009, the Bank's exposure in Mexico had increased again, to some $10.4 billion (box 4.2).

The relevance and quality of the response varied across countries. Relevance and quality were high in Georgia, Indonesia, and Mexico and low in Hungary; the majority of

BOX 4.2 MEXICO: A SUBSTANTIAL CRISIS RESPONSE

The Mexican economy was hit particularly hard by the global crisis, in spite of good macroeconomic policies and strong fiscal and external accounts positions at its outset. This was largely a result of the integration of the Mexican economy with the U.S. economy and financial sector. GDP growth slowed from 3.3 percent in 2007 to 1.3 percent in 2008, and became a negative 6.6 percent in 2009. Manufacturing output dropped by 20 percent in the first quarter of 2009, and exports declined by 22 percent.

Mexico received substantial external support, including a contingent $30 billion swap line from the U.S. Federal Reserve and the $47 billion provided by the IMF Flexible Credit Line in April 2008. The government also sought support from multilateral banks, including the World Bank, to help finance a fiscal stimulus package, which increased the deficit by 3 percent of GDP in 2009.

The Bank's response was quick and substantial. Although the pre-crisis Country Partnership Strategy had envisaged an average of $800 million in annual commitments, the Bank committed loans totaling $9.4 billion during fiscal 2009–10. These operations supported the authorities' programs in social protection and housing for the poor, fiscal reform, energy, and the environment.

The ability of the Bank to prepare and approve a large program of operations during the crisis was enhanced by the countercyclical reduction in Mexico's outstanding debt to the Bank, which had declined from about $9 billion in 2004 to less than $5 billion in 2007, and by the Bank's continuous engagement in AAA in the years before the crisis.

Source: IEG mission findings.

the countries fell between these extremes. Although many factors were responsible for the differences, the quality of the Bank's prior engagement with the country in question appears to have been the main determining factor.

The Bank's contributions in Indonesia and Mexico were significant. Although apparently at the two extremes of the range (Indonesia barely experienced a crisis when measured by GDP growth), and subject to different Bank and IMF responses, there are two major underlying similarities. First, the two countries had strong fiscal and external sector balances at the outset of the crisis. Second, both countries had reduced Bank exposure by about half in the previous

BOX 4.3 INDONESIA: BANK SUPPORT THROUGH CONTINGENCY FINANCING

The impact of the global crisis in Indonesia was very mild (growth remained high throughout the period, with a moderate decline in 2009; fiscal and external balances remained strong, and public debt continued to decline), but there was a short period of financial turmoil and anxiety in late 2008 that continued into early 2009.

In late 2008 the government moved quickly to calm financial markets. This included financial policy measures in late 2008 and a request to the Bank and other partners for contingency financing to ensure financing of its 2009 budget. All of this was presented to investors as a complete crisis management plan.

In early 2009, the government introduced a fiscal stimulus package, increasing the planned fiscal deficit from 1 percent to 2.5 percent of GDP (the actual deficit was 2.2). A major objective of the revised budget was to avoid repeating the experience of the 1998 East Asia crisis, when infrastructure spending fell drastically.

The main component of the Bank response was the $2 billion DPL-deferred drawdown option (DDO), which was requested in early October 2008, as part of a possible multidonor package of contingency financing in support of the government's crisis-response program. The total contingent financing facility, cofinanced with the ADB, Australia, and Japan, amounted to $5.5 billion, which was estimated to be the minimum external financing required for the 2009 budget. The DDO also supported establishment of a crisis monitoring and response system to anticipate possible adverse social impacts.

The total Bank lending program reached $4.3 billion in fiscal 2009. In addition to the DDO, the Bank approved two other development policy lending (DPL) operations, supplemental financing for two ongoing operations to support community-driven development programs, and an operation similar to a sectorwide approach (SWAp) in education. Two other DPLs were approved in the first half of fiscal 2010.

As in Mexico, the increased lending was made possible by nearly a decade of negative net disbursements (exposure fell from nearly $12 billion in 2000 to about $6 billion by 2007). Net disbursements turned positive in fiscal 2009 and continued to grow in the first half of fiscal 2010. In spite of this, and because good market response did not require the DDO to be disbursed, total Bank exposure to Indonesia, as of December 2009, was still lower than it had been at the end of fiscal 2003.

Source: IEG mission findings.

decade. As a result, the Bank and the respective regional banks were able to provide needed budget financing.

The large contingency financing provided by the IMF in Mexico, and by the Bank, with the ADB and Australia, in Indonesia (through a DPL-DDO) boosted market confidence**.** Neither of the contingent financing packages was disbursed, attesting to the underlying strengths of the country situations. Yet both packages had important signaling functions. That Indonesia had no obvious balance of payments disequilibrium and that the amounts needed were modest (compared with the IMF Mexico package and others) and for budget financing, the leadership of the Bank, and good cooperation with the ADB and Australia, made this program a major success (box 4.3).

The Bank's initial crisis response was quick in a number of cases, reflecting specific country conditions and/or government initiatives. In Georgia, for example, where the Bank was engaged in a more traditional post-conflict crisis response, the IMF approved a Stand-by Arrangement during the same period. This allowed a swift reaction when the global economic crisis hit, as discussed in box 4.6. The government of Indonesia also reacted early, requesting that the Bank prepare and lead a multi-donor contingency financing. The government announcement of the support in December 2008 helped bolster market confidence in the country.

Outside the set of country studies, the Bank also responded in a similar timeframe when the government of India announced its crisis-response strategy, which included a request for Bank support through a DPO in the financial sector and a number of investment operations in the financial sector, infrastructure, and energy (box 4.4).

Continuing Bank involvement, active policy dialogue, and good analytical work were important prerequisites to quick and effective reaction in the crisis. This applied to well-performing countries, such as Colombia, Indonesia, Mauritius, and Mexico, as well as to countries with poorer policy performance, such as Ukraine. Before the crisis, only Indonesia had used technical assistance from the Bank to set up an institutional framework for financial crisis management. Indonesia also used the Bank's crisis simulation models in December 2008. In the Ukraine case, Bank knowledge of the macroeconomic situation was useful in shaping the IMF support program. But it took a long time to prepare the financial sector DPL because of limited prior Bank lending to the financial sector.

When the Bank's prior involvement was limited, it was difficult to react quickly and provide effective support. Hungary, which had graduated shortly before the crisis (and is a European Union member), is an example. An initial attempt to restart lending in mid-2008 failed, partly because of "turf" issues among the Bank, EC, and IMF. The subse-

BOX 4.4 INDIA: COMPREHENSIVE CRISIS RESPONSE

For India, the global economic crisis triggered a chain of adverse events, starting with a slowdown in India's exports, which spread to production and investment when capital flows started retreating from emerging markets and stock market valuations began a rapid decline, consistent with global trends. Growth slowed down across all sectors, with the overall growth rate falling from a peak of 9.7 percent in 2006–07 to 6.7 percent in 2008–09.

The macro-policy response of the authorities was timely and broad-based, including increases in rupee and foreign exchange liquidity, fiscal stimulus, and actions on trade and finance. Reflecting the slowdown in economic activity and the consequent lower revenue receipts and countercyclical policies, the general government fiscal deficit deteriorated in fiscal 2008–09—reaching 9.6 percent of GDP compared with budget estimates of 5.1 percent. With the recovery from the slowdown well under way, the budget for fiscal 2010–11 cautiously rolled back some of the stimulus measures adopted in the second half of fiscal 2008–09.

Against this background of crisis and response, the Bank adapted its fiscal 2009–12 country strategy, which focused on inclusive growth, infrastructure, and the effectiveness of service delivery. In so doing, it intensified its program delivery, employing both IBRD and IDA resources, and India became the largest single borrower from both the IBRD and IDA in fiscal 2010. In total, the Bank committed $11.5 billion to India in fiscal 2009–10 and disbursed $6.8 billion—almost double the respective amounts for fiscal 2007–08.

In response to a specific request from the government, the Bank earmarked $3 billion to support India's domestic response to the global economic crisis, including a $2 billion financial sector DPO. This operation focused on supporting the injection of capital into the public-sector banks so they could maintain the growth in credit to priority sectors rather than focusing on stringent policy-based conditionality. The Bank's crisis response also included support for infrastructure finance, small and medium enterprises, and rural banking, as well as extensive AAA support through both formal reports on poverty, growth, and other topics and more informal policy notes that provided a basis for timely engagement with the authorities.

Source: IEG.

BOX 4.5 HUNGARY: DELAYED ATTEMPT TO SUPPORT A GRADUATED COUNTRY

The effects of the crisis were felt early in Hungary, which was in full crisis mode by mid-October 2008. Financial liquidity was restored by a large IMF-led rescue package of about €20 billion (€15 billion from the IMF, about €4 billion from the EC, and €1 billion planned from the Bank).

Discussions of possible Bank assistance to Hungary had started in April 2008, even though the country had graduated from the IBRD in 2007. Project documents for the proposed single-tranche DPO of €500 million stated that the project was not to be seen as crisis assistance and that, if Hungary were in a crisis, the EC or the IMF would have primary responsibility to offer stabilization assistance. However, in the subsequent process, concerns on the part of the Bank's senior management (and some shareholders), the IMF, and the EC and reduced interest on the part of the authorities led to the abandonment of the operation in June, after the government launched a successful bond issue of €1.5 billion.

But when the crisis hit, all parties came together under the IMF-led rescue package. The Bank's initial objective for the proposed DPO had been to support key reforms in the social sectors and labor markets, but during preparation, the focus quickly shifted to emphasize financial sector issues.

This time, discussions within the Bank and with the government were protracted, with much of the debate focused on the terms and conditions of the proposed loan. The Operations Committee package (in February 2009) proposed a loan maturity of five to seven years, with a front-end fee of 1 percent and a 2 percent fixed spread over LIBOR. But the government continued to seek better terms, and preparation stalled. In April 2009, the new government decided to continue discussions on the Bank loan, including discussion of the terms and conditions, but asked for a rationale for the terms being offered.

Board approval (September 2009) took place at a time when the earlier liquidity concerns had all but been resolved. Hungary had returned to the market in July 2009 with a successful bond issue, and the IMF (and EC) had disbursed their third tranches (subsequently the IMF disbursed its fourth tranche). The need for the Bank loan no longer appeared compelling, and at end-fiscal 2010 the loan had not been signed.

Because Hungary was the first case of lending to a graduated country on special terms during this financial crisis, it faced unusual circumstances. First, the decision of whether the Bank should lend to an IBRD graduate delayed Bank participation in the earliest stages of the preparation of the Hungary program. Second, the special pricing that the Bank proposed raised problems for the Hungarian government that led to the delay in Board presentation and approval. Once the general approach to such lending was resolved, the Bank was able to move ahead more quickly in specific country situations, as it did in Latvia. On the same day the Board approved the DPO for Hungary, it approved a financial sector DPO for Latvia, another graduated client, under very similar conditions. That loan was signed two days later and is fully disbursed.

Source: IEG mission findings.

BOX 4.6 GEORGIA: BANK READINESS AND LEADERSHIP IN A POST-CONFLICT SITUATION

Georgia's economic growth before the crisis was high, at about 9 percent per year since 2003 (and 12.4 percent in 2007). With increased growth came overheating, including a large current account deficit (20 percent of GDP in 2007 and 26 percent in the first half of 2008). In early August 2008, the tensions between Georgia and the Russian Federation escalated into a full-blown military conflict. Although hostilities lasted only about a week, infrastructure losses were great, and the conflict led to a large number of internally displaced people. In the aftermath of the conflict, and in the context of the global economic crisis, GDP fell by 4 percent in 2009, and the fiscal deficit approached 10 percent of GDP.

International support following the August war was swift and substantial. On August 22, the Bank sent a mission to Georgia. On September 3, the IMF announced agreement on a $750 million Stand-by Arrangement. In September, the Bank, together with the UN, led a joint needs assessment mission that included the ADB, EBRD, EIB, and EC. A donors' meeting in October, co-chaired by the EC and the Bank, resulted in pledges of $4.5 billion, exceeding the financial needs estimated by the assessment.

The Bank played a large and constructive role in the international response to Georgia's twin crises. The large volume of the Bank's financial assistance ($460 million in commitments) was well planned and implemented, in part due to Georgia's progression from IDA-only to blend country status in fiscal 2009 and the country's good policy reform and project implementation record. But the Bank's role went well beyond lending, as evidenced by its leadership of the joint needs assessment and organization of the donors' meeting. The Bank's internal organization and expertise and its time-tested convening power in leading multi-donor missions to assess reconstruction needs was exactly what was needed in Georgia after August 2008.

Source: IEG mission findings.

quent attempt, after the crisis brought all parties together in October 2008, took a long time, and a loan was finally approved when financing was no longer needed (box 4.5).

The design of the country response reflected appropriate use of different lending and nonlending instruments. Hungary, for the reasons discussed earlier, was a possible exception. Lending instruments were used in particularly innovative ways (such as the DDO in Indonesia) and were able to support priority government programs (for example, for protecting vulnerable groups in Mexico and Vietnam) or to advance the policy dialogue with the government (as in Jordan, Mauritius, and Nigeria). The Bank's program in Georgia was able to combine the Bank's extensive experience in post-conflict reconstruction with the needs prompted by the global economic crisis (box 4.6).

The substantial increase in lending in practically all programs had different impacts on policy dialogue and analytical work. Where analytical work was largely funded with the Bank budget, as in Ukraine, the trade-offs led to a decrease or a delay in analytical work that will need to be

TABLE 4.1 Selected Development Policy Operations Approved in Fiscal Years 2009–10

Country/ total DPOs (US$ millions)[a]	Program content and conditionality	DPO results framework
Bangladesh $130	Emergency food operation, expansion of social safety net and food security	Adequate—built on survey capacity
Brazil $3,080	Statewide fiscal and federal environmental management	Strong on state finances; weak realism on core environment issues
Colombia $1,400	Programs in environment, social protection, and private sector development	Strong results frameworks
Georgia $125	Emergency relief operation, fiscal policy, and social safety net improvements	Adequate—based on Emergency Needs Assessment
Hungary $1,413	Pension reform and strengthening of bank supervision	Adequate on pension reform and financial sector
India $2,000	Recapitalization of state banks and improved bank supervision	Weak on measurability and quantification of the outcome indicators
Indonesia $3,950	Public financial management and private investment in infrastructure	Strong results frameworks, except two infrastructure DPOs
Jordan $300	Tax base, social protection, public expenditures, and financial sector	Adequate—measureable outcomes and baselines
Kazakhstan $1,000	Public resource management and financial sector	Adequate—baselines and measurable outcomes
Mauritius $150	Structural reforms in public finance, trade competitiveness, investment climate, and social inclusion	Adequate—but uses intermediate outputs as proxy for results
Mexico $3,709	Environmental sustainability (energy, water, agriculture, and transport), countercyclical fiscal policies, and measures to enhance medium-term fiscal sustainability	Strong results frameworks; weak on the environment (where attribution and causality between the actions supported and results are weak)
Nigeria $500	Financial sector, public spending, and financial management	Adequate, but did not address impending bank crisis
Peru $1,560	Environment, fiscal sustainability, and social protection	Strong results frameworks for environment and adequate baselines and measurable outcomes for fiscal management
Poland $3,881	Public sector, labor reform, and fiscal sustainability	Strong—clear overall program development objectives, quantified baselines and targets
Turkey $2,600	Economic management, universal healthcare, investment climate, and energy efficiency	Weak on energy efficiency; adequate on economic management and social programs
Ukraine $900	Investment climate, public financial management, and financial sector	Adequate—baselines and measurable outcomes
Vietnam $1,000	Public investment reform (project selection, implementation, financial management, and monitoring & evaluation)	Strong on macro; weak on power and education
Total DPOs $28,015		

Source: IEG.

Note: Covers 68 percent of World Bank DPO commitments during fiscal 2009–10. Selected countries include 11 case study countries plus 6 large DPO users in fiscal 2009–10: Brazil, India, Kazakhstan, Peru, Poland, and Turkey. Of the 13 large IBRD borrowers discussed in the text, excludes Argentina and China, as they are not DPO users. While individual sectors were targeted, the DPOs had the broad goal of macroeconomic stabilization in the face of an actual or potential crisis.

addressed in coming years, lest it undermine future lending quality. In Indonesia and Vietnam, however, the availability of trust funds allowed analytical work to continue, or even increase, to cover the poverty impact of the crisis.

Quality at Entry and Crisis Relevance of DPOs

A major element in assessing the Bank's crisis response is the quality at entry and crisis relevance of its DPO interventions, given the prominence of such operations in the response. The evaluation examined the Bank's dialogue and lending support through DPOs, in the context of its 11 case study countries plus 6 other countries that were major users of DPOs over the period—Brazil, India, Kazakhstan, Peru, Poland, and Turkey. Together these 17 countries accounted for $28 billion in 46 DPOs—or 68 percent of total Bank (IBRD and IDA) DPO commitments—approved during the fiscal 2009–10 period. The results of the analysis are summarized in table 4.1.

The evaluation used common criteria across the countries for an initial review of quality at entry, using Bank policy as set out in Operational Policy 8.60: Development

AAA underpinnings	Macro sustainability analysis
Limited AAA except food price impact survey	Weak on agricultural policies; adequate on macro and fiscal sustainability
Extensive AAA on environment and state finances	Adequate analysis on fiscal sustainability
Extensive and programmatic AAA; Financial Sector Assessment Program Update (2005)	Weak on fiscal sustainability; adequate on macro analysis
Extensive AAA, including programmatic Public Expenditure Review	Weak on fiscal sustainability; strong debt analysis
Limited recent AAA, extensive on pension reform; Financial Sector Assessment Program Update (2005)	Adequate analysis on fiscal sustainability
Limited previous AAA in the financial sector; self-assessment Financial Sector Assessment Program (2009) and extensive work by Reserve Bank of India	Weak on fiscal sustainability; adequate macro analysis
Extensive AAA, including Public Expenditure Review	Adequate macro and fiscal sustainability analysis
Extensive AAA, including Public Expenditure Review, Investment Climate Assessment, and Poverty Update	Adequate on macro analysis and fiscal sustainability of social programs
Extensive AAA; Financial Sector Assessment Program Update (2008)	Adequate macro and fiscal sustainability analysis
Extensive AAA, including Country Economic Memorandum	Adequate macro and fiscal sustainability analysis
Extensive AAA and fee-based services; Financial Sector Assessment Program Update (2006)	Strong analysis on macro and fiscal sustainability
Extensive AAA, including Banking Sector Diagnostic and Public Expenditure Management and Financial Accountability	Adequate analysis on macro and fiscal sustainability
Extensive AAA, including Country Environmental Sustainability Analysis and Public Expenditure Review	Adequate analysis on macro and fiscal sustainability
Extensive AAA, including Public Expenditure Review	Strong analysis on fiscal sustainability; priority spending
Extensive AAA, including Country Economic Memorandum, Investment Climate Assessment, Labor Market Study, and Programmatic Public Expenditure Review	Adequate analysis of debt and fiscal sustainability
Limited AAA on financial sector prior to Financial Sector Assessment Program Update (2008); extensive AAA on macro and public finance	Weak on fiscal sustainability; adequate macro analysis
Extensive AAA, including Public Expenditure Review; extensive work of partners	Weak on fiscal sustainability; strong macro analysis

Policy Lending, and as amplified in the Bank's good practice guidance to staff. The evaluation's analysis stops short of a full quality-at-entry assessment, but it does pay particular attention to the results frameworks of the 46 operations as critical indicators of operational quality.

The quality-at-entry ratings on the 46 DPOs vary from unsatisfactory for the $2 billion India financial sector operation to highly satisfactory for the $2 billion Indonesia DDO and two environment DPOs in Peru, with other operations falling in between. By sector, financial sector operations were the weakest of the reviewed operations—reflecting the decapitalization of Bank skills in the sector and insufficient coverage of Financial Sector Assessment Programs and other diagnostic and analytic work—followed by infrastructure. Economic policy was both the most highly represented sector by value and number of operations and had the most consistently acceptable levels of quality. Thus, while there are positive indicators of quality at entry, there are serious concerns in certain areas, especially the financial sector, as well as with regard to results and their sustainability. Results frameworks are works in progress in many DPOs and need to be strengthened to enhance prospects for sustainability, particularly since external conditions remain volatile.

The Bank's response in almost all of the 17 large DPO-using countries had an element of crisis-response relevance, though with considerable variation across countries and differences in impacts. Hungary, Mexico, and Ukraine, the hardest hit of the countries, all had large IMF programs, though Mexico did not draw from the Fund. For Hungary and Ukraine, the Bank supported policy measures designed to relieve some of the problems that had aggravated the crisis, and in the case of Hungary, carried out a Public Expenditure Review under the DPO, designed to help the authorities improve public expenditure allocations. Mexico, by contrast, faced an imported rather than a homegrown crisis, and the Bank helped the government to fund social safety nets and other countercyclical programs. For Poland and Turkey, the Bank supported the authorities' efforts to restore fiscal sustainability and growth, in part through social safety net reforms, with strong Bank engagement in public expenditure review processes.

For Colombia, Indonesia, Mauritius, and Peru, Bank engagement included support through a DDO, reflecting in part the countries' interest in insuring against a larger crisis impact and in signaling their preparedness to the markets. In Brazil, the crisis caused several additional states to step forward for Bank support to smooth expenditures in the face of reduced revenues. In India and Nigeria, the Bank focused on the financial sector to improve the resilience of those economies in the face of shocks. The Bank's engagement in Bangladesh was mostly about the food crisis, and in Georgia it was focused on post-conflict assistance, where growth prospects were undermined by the global and regional slowdown.

Attention was given to fiscal and debt sustainability in the DPOs, as required, but more attention should have been paid to the broader macroeconomic and political-economy risks of the budgetary corrections likely to be needed in the future. Where initial country conditions were poor and the crisis had a substantial negative impact, thus raising more serious questions regarding fiscal and external balances, the country also had an IMF program that focused more directly on macroeconomic performance and sustainability. Vietnam was an exception—although it had substantial fiscal and external imbalances, it did not have an IMF program. In this case, the Bank and the Fund provided joint informal advice, although the Bank was more willing to accommodate the government's tilt toward growth.

Photo courtesy of Yuri Mechitov/World Bank.

Poverty Focus

Attention to poverty issues was greater than in previous crises, but with important gaps in central guidance and frequency of monitoring. The IEG review of lessons from previous crises emphasized the importance of identifying the poverty and social impacts of a crisis and responding with policy measures and support to address these impacts. This evaluation found that poverty and social impacts generally received adequate attention through lending and analytic work, though not in all countries. However, the overall objectives of the Bank response were only vaguely defined, and limited guidance was provided to the Regions and country teams. Monitoring of the social and poverty effects of the crisis might have been carried out on a more real time basis. The evaluation also found that in many

countries the governments were also aware of the issues and interested in addressing them.

At the country level, there were appropriate differences, reflecting the initial levels of social expenditures and the depth of the crisis. For example, in Hungary and Ukraine—where the total amount of social expenditures (including pensions) is a large share of the total government budget and the crisis led to a substantial worsening of fiscal performance—the concern was to improve targeting and reduce overall expenditures (including pension reform). In Colombia, Indonesia, Mexico, and Vietnam, where total social expenditures and safety nets are still limited, the measures introduced during the crisis included assessments of the poverty impact of the crisis and measures to alleviate the social costs.

Bank objectives and actions related to maintaining public investment in infrastructure were accompanied, in some cases, by the explicit objective of supporting employment (through labor-intensive infrastructure) and other social objectives. For example, in Georgia, an IDA credit for the Regional and Municipal Infrastructure Development Project, processed on an accelerated schedule, had the objective of improving selected municipal infrastructure and service and assisting in restoring infrastructure and services and improving housing conditions of conflict-affected people. Also in Georgia, the first IBRD loan was the provision of additional financing for the Secondary and Local Roads Project. The report noted that "The Government is therefore seeking urgent Bank support to scale up road rehabilitation activities as a means to create temporary employment in road construction, provide long-term economic benefits and improve local access through improved secondary and local road infrastructure" (World Bank 2009c, p. 46).

Financial Sector Focus

In several case study countries, the Bank supported reforms in the financial sector through a DPO as part of the response to the crisis. This included countries such as Indonesia and Nigeria, where there was no program involvement with the IMF, and Hungary and Ukraine, where there was. In most of the cases, Bank work on financial sector issues has been relevant for policy actions on banking supervision, establishment and operating mechanisms of supervisory authorities, and stress tests of commercial banks.

In Indonesia, the Bank provided financial sector support through programmatic DPOs. These operations built on Bank support for government efforts to prepare for a financial sector crisis several years earlier. A DPL-DDO (prepared in collaboration with the ADB, Australia, and Japan) supported the government's Financial Sector Stability Forum. The government program had become operational in 2008, setting up the rules and decision-making procedures that would apply in the event of a systemic bank crisis. The DPL-DDO provided a team of experts to review the protocols for each subsector and recommend improvements.[1] In addition, a crisis simulation exercise, supported by the Bank, took place in December 2008, when proactive government measures had already started to reduce the impact of the crisis.

In Nigeria, Bank support, also through a DPO, did not address the ongoing deterioration of the banking sector. The Bank had more limited operational engagement in the financial sector in Nigeria than in Indonesia, although staff had maintained an active dialogue with the Central Bank of Nigeria, focused on several issues related to credit and portfolio quality and banking supervision and regulation. As the global crisis weakened oil prices and government revenues, the authorities sought Bank assistance through a DPO, with financial sector support as the main component. It focused on the need to strengthen the supervision of banks, to increase banks' capital, and to adopt the International Financial Reporting Standard.

There were long lags in providing financial support to the financial sector in some severely affected countries with large IMF-led response programs, such as Hungary and Ukraine. In these countries, the Bank's work on the financial sector was closely linked to that of the IMF, including its contributions of its prior knowledge of the financial sector (or early analytical work when prior knowledge was limited, as in Hungary) to the IMF programs. The financial sector DPOs that were eventually prepared, however, were approved nearly one year later, long after the crisis hit. There were difficulties created by the two very different operational approaches followed by the Bank and the IMF: the IMF put forward Stand-by Arrangements that were subject to quarterly reviews and conditions to be met every quarter, while the Bank was involved in preparing the overall policy matrix that would be the basis for the operation months later. These difficulties were surmounted effectively in Ukraine through good staff interactions at the personal level. In Hungary, attempts to overcome these difficulties were less successful, and differences of view between the government and the Bank led to protracted negotiations.

Finally, in the Europe and Central Asia countries, Regional initiatives—such as the Joint IFI Initiative and the Vienna Initiative—facilitated the important contributions of the (foreign) parent companies of domestic banks to the resolution of the potential systemic risks in the financial sector, mainly through recapitalization. The Bank played an important role in these initiatives, which were led by the European Union (EU) and other European organizations and by bilateral support from European governments.

BOX 4.7 TURKEY: ADAPTATION OF AN EXISTING PROGRAM

In Turkey, the main impact of the global financial crisis and economic down-turn has been on the real economy: production and output, exports, and jobs. Before the crisis, Turkey had been on a path of robust, export- and private sector–led growth, building on 6.8 percent average annual GDP growth between 2002 and 2007. With the crisis, 2008 fourth-quarter growth plunged to –6.5 percent, reducing the full-year GDP growth rate for 2008 to 0.7 percent. The economy continued to contract in the first three quarters of 2009, with GDP falling by 4.7 percent for the year as a whole. Estimated poverty impacts of the slowdown have also been significant: staff simulations point to an addition of 5 percentage points to the poverty rate, to bring it to about 22 percent.

The government's response to the crisis included: (i) banking liquidity measures and monetary policy, (ii) fiscal stimulus, and (iii) employment and social measures. Turkish banks have remained highly capitalized and profitable. Fiscal stimulus measures were limited in cost and targeted key industrial sectors. With unemployment rising rapidly, the authorities introduced a number of measures to encourage hiring, preserve existing jobs, and expand active labor market programs.

Bank support for the government's crisis response, which was built on a strong relationship, an ongoing Country Partnership Strategy, and an existing set of instruments, focused on scaling up DPL financing of operations in the pipeline, quick processing of additional financing on appropriate credit lines, gearing technical assistance toward the crisis dialogue, and supporting crisis-response measures by restructuring the DPL series accordingly.

The Bank's ability to adapt its previously planned program to the government's crisis response built on a strong program of ESW and other AAA. Since the global economic crisis began, the Bank has launched several analyses of the economic and social impact of the crisis—with a particular focus on employment issues—and policies and programs to mitigate it, including two Country Economic Memoranda, an employment report, a labor tax study, a programmatic public expenditure and financial management review, and a study of the welfare impact of the economic slowdown and policy options for jobs.

Commitments of Bank financial support totaled $5.1 billion in fiscal 2009–10, with disbursements of $4.7 billion. The Country Partnership Strategy was reviewed with the government and endorsed by the Board in January 2010, when it was agreed that the program for the next three years would focus on areas critical for renewed growth and job creation, sustainable energy and infrastructure, and human capital and social protection of the most vulnerable groups.

Source: IEG.

Adequacy of Instruments

Bank instruments for quick-disbursing lending had been extensively modified prior to the crisis, with smaller modifications during 2008 and 2009, including an enhancement of the DDO, the introduction of a DDO for catastrophic risk, and a modification of the Special Development Policy Loan. The Bank's decision not to undertake a more extensive revision of instruments during the crisis reflected management's assessment that existing instruments were adequate to support an enhanced and rapid response.[2]

Several other international financial institutions introduced new instruments during the crisis. For example, the IMF established a totally new instrument, the Flexible Credit Line, as well as enhancing the Stand-by Arrangements and introducing other reforms in its lending framework (IMF 2009). Among the multilateral development banks, the ADB introduced a Countercyclical Financing Facility with a shortened maturity of five years and higher lending rates. The IDB introduced a Liquidity Program for Growth Sustainability, also with five-year maturities.

Country teams used the available instruments in agile and innovative ways, but there were some processing difficulties and delays. The instrument of choice in the Bank's response to the crisis was the DPO, which was generally efficient in providing for rapid increases in loan sizes and disbursement amounts. This allowed country teams, as in Turkey, to quickly adapt Bank programs to the rapidly evolving country needs (box 4.7).

But this instrument was not always amenable to a quick approval, and even when an ongoing DPO program was under way, it was difficult to switch to "crisis mode." Also, many DPOs needed to serve several conflicting objectives, including rapid response and provision of financing, as well as supporting reforms that had to be defined during preparation. This led to delays in the first Vietnam IBRD loan and in the Hungary operation (which was ultimately not signed).

In Indonesia, the Bank used the DPL-DDO instrument as a contingent financing facility to address investor concerns. Although this was not exactly the purpose of the instrument,[3] because Indonesia did not (and did not intend to) draw down the loan, the DPL-DDO achieved its objective of restoring investor confidence in the market before it was even approved. In this case, the DPL-DDO operated in parallel with the IMF's Flexible Credit Line. The special features of the country situation, however, make it unlikely

that many other similar uses of the DDO instrument will occur in the future.

Increases in the size of already-planned DPOs, particularly as part of a series of programmatic operations, were useful but had also costs. In Ukraine (DPL III), acceleration and increase in the size of the operation were accompanied by dropping or postponing some expected reforms (procurement law, improved targeting of safety nets), while in Vietnam (PRSC 8), the increase in size caused concerns among cofinanciers.

For investment lending, major findings from the review of the use of instruments in the crisis response include the following:

- Additional (supplemental) financing for ongoing operations, both DPLs and (especially) investment operations, were useful instruments and were widely used across the countries in the sample. Overall, 24 percent of all operations in fiscal 2009–10 were additional finance operations, almost all of them investment operations. This trend toward heavy reliance on supplements has accelerated in recent years, and for IDA, such operations accounted for almost one-third of the value of credits approved in fiscal 2010. To qualify for additional financing, a project must have satisfactory implementation status and results ratings, and the evidence suggests that they all do, but further analysis is required.
- Fast-disbursing investment operations (SWAp-type operations) in countries such as Indonesia, Mexico, and Vietnam, where the Bank and other donors could provide funding for ongoing government programs, were useful instruments in the crisis response. These operations have now taken on large proportions and, in practice, differ little from DPOs, but have fewer strictures.
- Traditional investment operations, mainly in infrastructure, and some very large in size, helped increase the overall volume of lending commitments, but they contributed little by way of disbursements and provision of liquidity during the crisis. While regular investment operations will continue to be approved during a crisis episode (particularly in countries not severely affected by the crisis), they raise the question of the appropriateness of tying up large volumes of Bank financial resources for a long period of time with limited impact on the immediate crisis years.

Finally, an important finding relates to the cyclicality (or countercyclicality) of lending and the need for "lending headroom" at the country level in crisis periods. At the country level, the countries that reduced their Bank exposure substantially during the boom years of the early 2000s (Indonesia; Mexico; and, to some extent, Colombia) were in a better position to borrow large amounts from the Bank in 2009 and 2010. Countries that had continued to increase their exposure even when private capital inflows were very high, such as Ukraine, faced constraints tied to total Bank exposure when the crisis hit.

At the institutional level, the same finding implies that shorter-maturity loans would facilitate the Bank's management of country exposures and resources in a countercyclical manner. Although the East Asian crisis showed that demand for Bank lending may drop off quickly and substantially after a crisis, one legacy of the long maturities of the Bank's crisis response lending is that exposures will be tied up for long periods, constraining the Bank's capacity to respond to new, unanticipated shocks—the recent agreement on the capital increase notwithstanding. One possible source of relief is that some countries may again voluntarily prepay loans. An institutional solution would include new instruments, possibly along the lines of the countercyclical instruments with five-year maturities adopted by the ADB and the Inter-American Development Bank (IADB).

Coordination with Partners

Coordination with other donors, including the IMF, was generally good, and was much better than in previous crisis episodes. This finding emerges from practically all country studies and represents a major improvement over previous crises. It seems to be the result of the Bank, as well as most other organizations, realizing that the global nature and depth of the crisis required coordinated efforts, and that they were all in it together. A notable example of this attitude is the Hungary case. In the spring of 2008, the Hungarian government requested, and the Bank originally agreed to prepare, a DPO operation. Opposition from the IMF and the EU, which saw the Bank as "poaching" in their territories, led to endless discussions and abandonment of the proposed operation in the summer of 2008. Yet within days of the IMF announcement (in mid-October) that important rescue packages were needed in several countries, including Hungary, discussions started on a multi-donor package with participation of the IMF, the Bank, and the European institutions. [4]

Regional initiatives (such as the Joint IFI Initiative), closer coordination and frequent cofinancing with regional development banks and bilateral donors, and good cooperation with the IMF in a variety of country circumstances (and irrespective of whether the IMF had a program in the country) are among the most positive findings of this evaluation. Coordination with external partners was helpful at the country level in many cases where the Bank Group joined with others in international support packages. This was especially true for coordination with the other multilateral development banks, including the AfDB in Mauritius; the ADB in Indonesia and Vietnam; the EBRD in Georgia, Hungary, and Ukraine; and the IADB in Co-

lombia and Mexico. Cofinancing with bilateral donors was also important in many countries, including the European Communities in Eastern Europe and Central Asia, and Japan, Australia and many other bilaterals in East Asia.

Cooperation with the IMF was generally good, despite differences in point of view in some areas and in some country situations. In a number of cases, the Bank's previous analytic work provided a useful roadmap for the policy dialogue for Bank and Fund programs, as in Ukraine. And in Colombia, given the Bank's major support and the IMF's Flexible Credit Line, the collaboration was timely and coherent. But in other cases, different policy views created tensions, though they were ultimately resolved, such as the macro-policy stance (and interest rate subsidies) in Vietnam or the severity of financial risks in commercial banks in Hungary, where the overlapping work of the Bank and the IMF on financial sector issues was but one of many sources of friction.

Early Outcomes

It is difficult at this stage to identify the impacts of the Bank's response. First, the crisis and the crisis response are still evolving. As of the end of fiscal 2010, the perceived risks of a double-dip scenario, precipitated by contagion from fiscal and debt problems in Greece and other Euro-area countries, have increased. Second, the Bank's initial response to the crisis focused narrowly on increasing lending, and when the Bank did formalize its strategy, it did not set out baselines, benchmarks, or intended results against which implementation of the strategy could be evaluated. Nor did it provide guidance for country teams for implementing the strategy. Third, most of the Bank's operations in responding to the crisis are still under implementation and have not yet closed. These important caveats notwithstanding, several observations about early impacts warrant consideration.

First, the Bank, working with partners, contributed to confidence-building and macroeconomic stability. The evidence suggests that the Bank Group, together with others in the international financial community, responded to the crisis and sharply boosted assistance to developing countries to help restore calm to the financial markets to limit contraction and contagion. As stresses in financial markets eased over the course of 2009–10, developing countries largely regained access, and many are on the path to recovery.

These results were achieved because of the policy efforts of the countries themselves, with IFI support playing an important though secondary role. For example, the government of Indonesia's program was able to gain market support with a very small contingency financing package led by the Bank, with participation of the ADB, Australia, and Japan. In other cases partners had the lead. In Ukraine, for example, the initial IFI crisis-response package drew substantially on the analytical work of the Bank, which also provided about $1 billion in gross disbursements in the context of a much larger IMF-led package. And in Mexico, the ability of the Bank to prepare a program of quick-disbursing operations rapidly—supported by very large contingency credit lines from the U.S. Federal Reserve and the Fund—helped the authorities to maintain macroeconomic stability and confidence in their program.

Second, the Bank supported authorities' efforts to work through the sequencing of the fiscal and debt sustainability policies. DPOs and their supporting analytic work—especially Public Expenditure Reviews in countries such as Hungary, Indonesia, Mexico, Peru, Poland, Turkey, and Vietnam—and the associated policy dialogue have emphasized the importance of taking action against fiscal and debt vulnerabilities. But the effectiveness of this support remains unclear, and many risks remain, in many cases related to the underlying domestic political economy of the necessary rationalization of social security, pension, and health system benefits.

The Bank also supported policy and institutional reforms in public financial management during the crisis period to make the budget more transparent, predictable over the medium-term, and performance-oriented in Mexico, Poland, and Vietnam. In Mexico, the DPO supported the adoption of measures to enhance medium-term fiscal sustainability, including tax and tariff reforms to increase non-oil revenues and improve public expenditure management. In Poland, the government carried out a major tax reform linked to the Bank DPO, reducing taxes on labor incomes and simplifying the personal income tax. In Vietnam, the government has begun strengthening the public investment project cycle, including project selection, implementation, financial management, and oversight.

The Bank will need to continue to invest in analytic work and policy advice for medium-term fiscal sustainability. Fiscal performance during the crisis (particularly in 2009) deteriorated across the board. This was an inevitable result of the crisis, reflecting declines in public revenues coupled with stimulus packages designed to cushion the impact of the recession. In view of the economic uncertainties and risks, timely fiscal consolidation will be critical for macroeconomic stability, and thus for results and their sustainability.

Third, the Bank's disbursement of financial resources helped the authorities of affected countries to maintain important public spending programs (especially for social protection) as revenues declined and to increase other social programs as economic activity declined. Of course, in enumerating the impacts of Bank disbursements, it is necessary to take into account the additionality of the Bank's

response, and in particular to differentiate Bank portfolio disbursements that would have taken place without the crisis and the disbursements of incremental commitments, which is a much smaller number—for example, 43 percent of fiscal 2009–10 disbursements were for operations approved before fiscal 2009 (see box 3.2). These incremental crisis-response disbursements were concentrated in IBRD DPOs for Colombia, India, Indonesia, Mexico, Poland, and Turkey and IDA DPOs for Nigeria, Pakistan, and Vietnam and emergency operations in Ethiopia—although to a much more limited extent, in line with IDA's smaller crisis response.

While it is too early to put a value on these impacts, the evaluation and evidence from past crises suggest that such contributions can be important. Examples include the Families in Action Program in Colombia, which expanded assistance to approximately 2.7 million families through conditional cash transfers; the *Oportunidades* program in Mexico, where the Bank supported the national conditional cash transfer program that helps 5.8 million of the country's most vulnerable families; the Bangladesh conditional cash transfer program, which helps mitigate the impact of high food prices on the poor; and the Ethiopia program for chronically food-insecure households in rural areas, amounting to about 40 percent of annual food needs, which a recent impact evaluation concluded is smoothing household consumption and protecting assets, even during times of crisis.

Fourth, early indications based on quality-at-entry considerations raise questions about likely results, and in some cases point to major risks, for Bank-supported financial sector reforms. DPOs (or DPO components) in Colombia, Hungary, and Ukraine had strong reform content and results frameworks and were well-designed to enhance the legal and regulatory framework to make the banking system more resilient in the face of future crises. The case studies suggest that these operations have helped to create transparent processes for bank recapitalization with private funding, or, where that was not possible, with public resources at the lowest possible cost. In other cases, the Nigeria financial sector DPO focused more narrowly on international financial reporting standards and risk-based supervision when the country's financial system was under serious threat of a financial crisis. And in India, the financial sector DPO focused on funding the recapitalization of public banks in the context of a stimulus package that included only incremental financial sector reforms.

There are also several worrying developments on the investment lending side—in the context of financial intermediation loans and the handling of foreign exchange risks—that warrant further examination going forward. For example, the Bank provided loans to Turkey in fiscal 2008, 2009, and 2010 for SME operations as part of its crisis-response program. The subsidiary loans are denominated exclusively in foreign currencies, thereby increasing the SMEs' foreign exchange rate risk and exposure, which had already become a source of instability in the past few years. In Mexico, the Bank provided a $1 billion quick-disbursing private housing finance loan aimed at restructuring the short-term debt of *Sociedad Hipotecaria Federal* for continuation of lending to low-income groups. However, these loans repeat the problems of past financial sector loans, as highlighted in previous IEG evaluations of financial sector operations.

Finally, the Bank provided considerable support for public investment programs in infrastructure, but there is limited evidence of impact at this stage, as reflected *inter alia* by the low disbursement rate on commitments approved during fiscal 2009–10. As noted in chapter 3, infrastructure had the largest increase in commitment volume in fiscal 2009–10, driven by large investment loans to India, Kazakhstan, and Ukraine for roads, as well as to Egypt, India, and South Africa, with much of the increase concentrated in the fourth quarter of fiscal 2010. However, these operations—whether approved in fiscal 2009 or 2010—have disbursed very little, so any crisis-mitigating impact that might be derived from the associated Bank-supported investment program has been minimal to date. The Bank has also provided DPO support to the sector for two operations in Indonesia, and their results frameworks were rated as moderately unsatisfactory by the evaluation team, compared with the satisfactory and highly satisfactory ratings for all other Indonesia DPOs.

Assessment of the IFC Response

IFC's response was relevant in the needs it sought to address and in seeking to leverage partnerships. But delivery has not matched intentions. IFC's response focused on relevant areas (trade, microfinance, bank capitalization, distressed assets, and infrastructure) and appropriately sought to leverage IFC's role and capital. The initiatives initially had positive signaling effects on market psychology, in contributing to the perception of a vigorous global response to the crisis. However, IFC's catalytic role and additionality have been less than expected, since most initiatives were not "ready for use" and IFC ultimately prioritized portfolio protection over pursuit of new business, as in most past crises. IFC was relatively risk-averse in its core business response, with the exception of its efforts in Sub-Saharan Africa.

Preparedness and Readiness

IFC had anticipated some degree of financial turmoil and moved quickly to place a strong and effective focus on the financial health of its loan portfolio. In the early part of fiscal 2009, significant numbers of investment staff

were reallocated from new business to portfolio management. Unprecedented stress testing was carried out by portfolio teams in all Regions, based on early experience in Europe and Central Asia. The relatively low level of nonperforming loans that IFC has maintained since the crisis began (4.5 percent as of June 2010, compared with over 11 percent following the crises of the late 1990s) is testimony to the effectiveness of these determined efforts to supervise portfolio loans and to resolve any repayment issues quickly. In Nigeria, the stress testing had the beneficial effect of allowing IFC to reduce its exposure in some client banks in advance of the country's financial crisis several months later. IFC ultimately did not incur any losses, which validated this approach from a financial perspective.

But on the equity side, IFC was less prepared. IFC's balance sheet contained substantial unrealized equity gains when the crisis hit, triple the size of realized gains. Given substantial write-downs due to the crisis,[5] IFC may in hindsight have divested more equity during the years of economic expansion.[6]

While IFC's capital position was impaired by the crisis, it was still strong enough for a moderate countercyclical response overall—but this did not materialize. In addition, to effect major equity write-downs, IFC's balance sheet had to absorb significant grants to IDA ($1.75 billion between fiscal 2008 and 2010). Nonetheless, IFC's estimate that it could invest around 5 percent more annually in fiscal 2009–11 than in 2008 was conservative, given third-party assessments at the time that IFC was well capitalized and past experience showing the financial benefit of IFC investing during a crisis. Yet the response was procyclical; that is, in line with the pattern of private capital flows overall.

Since most of the crisis initiatives required the creation of new platforms and funds mobilization, readiness to respond quickly to the crisis was inherently constrained. Extra financing through the GTFP was possible right away, with an increase in the program ceiling, which required limited additional capital allocation. Otherwise, the initiatives could not contribute to the response until new structures had been established and funds had been raised. Some 21 months after the start of the crisis, at the end of June 2010, only one-third of the targeted funds for the initiatives had been mobilized (or one-sixth, if IFC's own contributions to the initiatives are excluded), and only $1.9 billion had been disbursed, most of it through the GTLP.

New legal structures have taken time to emerge, especially for the IFC Capitalization Fund and the Infrastructure Crisis Facility. The GTLP was the exception, with the quick creation of a trust fund for the investment platform—a first for IFC. This allowed other funders to contribute to the GTLP on commercial terms and minimize their administrative burden. The GTLP also involved a structural characteristic that would enhance speed and volume: wholesaling of large-scale financing through a few institutions in a handful of deals, as opposed to smaller project support through many entities, as with other initiatives.

Relevance of Response

IFC's new global initiatives have been focused on widely recognized crisis vulnerabilities: global trade, microfinance, infrastructure development, bank capitalization, and nonperforming assets. Taken together, these vulnerabilities represented estimated private sector financing needs in developing countries of more than $1.3 trillion:

- **Trade finance (gap):** Not only was access to trade finance reduced (by an estimated $100–300 billion), but where it was available during the first year of the crisis it tended to be at higher prices (double or triple in some markets), and sometimes at shorter tenors. The creation of the GTLP turned out to be particularly appropriate, since emerging-market banks ultimately ran into liquidity constraints more than risk-exposure issues (addressed by the GTFP).
- **Microfinance:** Loan refinancing requirements were expected to amount to $1.8 billion in 2009, as short-tenor loans that investors had provided to microfinance institutions before the crisis expired or loan prices were hiked (Littlefield and Kneiding 2009).
- **Infrastructure:** About $185 billion was needed in the sector, made up of rollover financing ($70 billion), recapitalization ($3.5–7 billion), and new project financing ($110 billion).
- **Bank capitalization:** Emerging-market banks would need at least $30 billion in equity support as a result of the impact of the crisis on their balance sheets.
- **Distressed assets:** The size of the distressed assets market in developing countries was expected to grow from $1.5 trillion to $2.5–3 trillion as a result of the crisis.

From a supply perspective, the initiatives were structured in a way that generally fit with IFC additionality and experience and reflected some learning from past crises. The initiatives tapped into IFC's global reach, deep knowledge of certain sectors (trade finance, microfinance, infrastructure), and ability to offer a package of investment and advisory services. The design of the initiatives also exhibited some learning from past crises: the initiatives were targeted and phased (to address different stages of the crisis), some had expiration dates, they were based on leveraging partnerships (crucial, given the scale of the identified private sector financing needs, which IFC alone could only go a small way to meeting), and this time involved IFC advisory services.

However, the initiatives generally were not constituted in a way that would allow for quick execution, so their relevance as crisis-response tools was limited. The initiatives were novel and may provide opportunities for IFC to broaden its impact in the long run—for example, allowing it to draw on a wider range of funding sources than it has been able to do in the past (such as governments, pension funds, and other development finance institutions) and to avoid country and sector headroom constraints that may arise on IFC's own account. However, in the context of the current crisis, the initiatives had an inherent design flaw: most of them required new, sometimes complex, arrangements that would take time to establish. IFC also lacked experience in some areas, such as fund management and handling donor funds (on the investment side).

IFC's crisis response differentiated among varying Regional needs. Most Regional strategy notes of late 2008 reflected nuances in initial conditions and how the crisis would affect each Region: supporting trade finance in Africa, anticipating second-order transmissions of tightened credit (as opposed to first-order financial system problems); in East Asia and the Pacific, focusing on domestic market development through infrastructure, agribusiness, and nonperforming loan platforms, to help substitute for export market demand, alongside trade finance and possible bank recapitalization; a strong financial sector focus in Europe and Central Asia, based on provision of banking sector liquidity and capitalization, together with help on nonperforming assets; and support for trade finance in Latin America and the Caribbean, particularly to support agribusiness and commodities trade. The Middle East and North Africa was the exception. Here the approach was more a continuation of existing business rather than a crisis response, with continued efforts to tackle long-term Regional concerns, such as infrastructure development, access to finance, and South-South investments.

However, IFC did not align its response well with specific country needs. In Mexico, the corporate focus on portfolio protection and high selectivity in new investments, together with substantially increased pricing during the crisis period (due to a heightened country risk premium), worked against the country team's efforts to support top-tier companies and global leaders in distress, as well as healthy medium-size companies looking for equity. New commitments dropped a total of 65 percent between fiscal years 2007 and 2009, although they have started to pick up again in fiscal 2010. The approach in Indonesia was similar. Here, non-performing loans were reduced to less than 1 percent, as they were in Mexico, but new investments fell by more than a quarter between fiscal 2008 and 2009.

Georgia and other low-income countries were notable exceptions to this pattern. In Georgia, IFC developed a specific support plan for the banking sector as part of a massive IFI package to assist the country (a stimulus package totaling around one-third of the country's GDP). Other factors played a role in this adaptability, including timing (a reaction to the conflict with Russia, which preceded the global financial crisis), prior relationships with investee banks, and relatively small country size. In Central America, IFC ramped up its investments to Honduras and Nicaragua. [7]

Implementation of Core Business Response

Overall, the drop in new business in the first year of the crisis was less than the 40 percent fall in past crises (IEG 2008a), but it was still significant. A pattern of risk avoidance, reflected in investment growth in countries where risk conditions improved, and generally weaker levels of investment in countries where risk grew, was apparent (table 4.2). Such a pattern is understandable, in the sense of wanting to preserve balance-sheet health, although evaluation has shown the potential benefits of an alternative approach: high development (and financial) returns and additionality when investing during a crisis.

Most comparable financial institutions were countercyclical in their private sector activities. The flat-lining of IFC investments in Europe and Central Asia and declines in East Asia and the Pacific and South Asia were not in step with large increases in private investments by the EBRD and EIB (in Europe) and the ADB (in Asia) in the first year of the crisis, ultimately supported by a capital increase in each case. Comparable private sector financial intermediaries, such as Standard Chartered, also increased their business (Standard Chartered 2009). IFC's investment volumes followed a similar path to that of the AfDB in Sub-Saharan Africa and the

TABLE 4.2 Net IFC Commitments and Net Private Investment Relative to Changes in Country Risk Perceptions, 2008–09

Quartile based on average institutional investor country-credit risk (IICRR) change[a]	Change in calendar year 2009 compared with 2008		Average IICRR change[a]
	IFC total net commitment (%)	Net direct private investment (%)	
1	19.3	−8.5	1.5
2	−37.1	−29.8	−0.4
3	−49.0	−49.7	−2.0
4	4.2	−47.6	−7.5
Total	−21.7	−41.9	−2.1

Sources: IFC, Economist Intelligence Unit, and Institutional Investor.

Note: Based on a sample of 97 major economies where data are available.

a. Change of average IICRR in calendar year 2009 compared with calendar year 2008. A negative change indicates perceptions of increased country investment risk.

Middle East and North Africa, and IFC commitments fell, but less so than those of the IADB in Latin America and the Caribbean (table 4.3). Other institutions, like IFC, ramped up their trade finance activities in reaction to the crisis. For example, the ADB increased its annual trade finance commitments from nothing in 2007 to almost $850 million in 2009. In Europe and Central Asia, the EBRD and EIB concentrated more on large, long-term loans, while IFC focused more on smaller equity transactions, alongside trade finance.

IFC's sustained focus on LICs, particularly in Sub-Saharan Africa, can be viewed as a positive development in the crisis period.[8] Given that LICS have largely missed out on the influx of foreign capital in recent years (for instance, the share of total private capital flows to African countries has been relatively constant, at 6 percent of overall flows) (World Bank 2008a, 2009d, 2010c) and persistently high investment risk, it can be argued that IFC has been countercyclical among this group of countries. IFC's increased focus on the poorest countries during the crisis period can be seen in figure 4.1, which compares the changes in net IFC commitments in different income groups between 2008 and 2009 relative to changes in net private capital flows.

IFC was strongly countercyclical in a few specific cases. In Georgia, GDP growth fell from 12 percent in 2007 to negative 4 percent in 2009, and foreign direct investment fell by over a half as a result of the dual crises. IFC subsequently increased its investments in Georgia by around $200 million, largely due to two sizable co-investments with EBRD in the country's two main banks, TBC Bank and Bank of Georgia. The investments were also made out of financial self-interest: to ensure the profitability of IFC's existing investments in these banks. In Pakistan, a country already in conflict when the crisis hit and affected by the food and energy crises, IFC stepped up its provision of trade finance, supporting 12 issuing banks with over $500 million in guarantees for trade such as fertilizer and agriculture goods, iron and steel, plastics and chemicals, and oil, from October 2008 to March 2010.

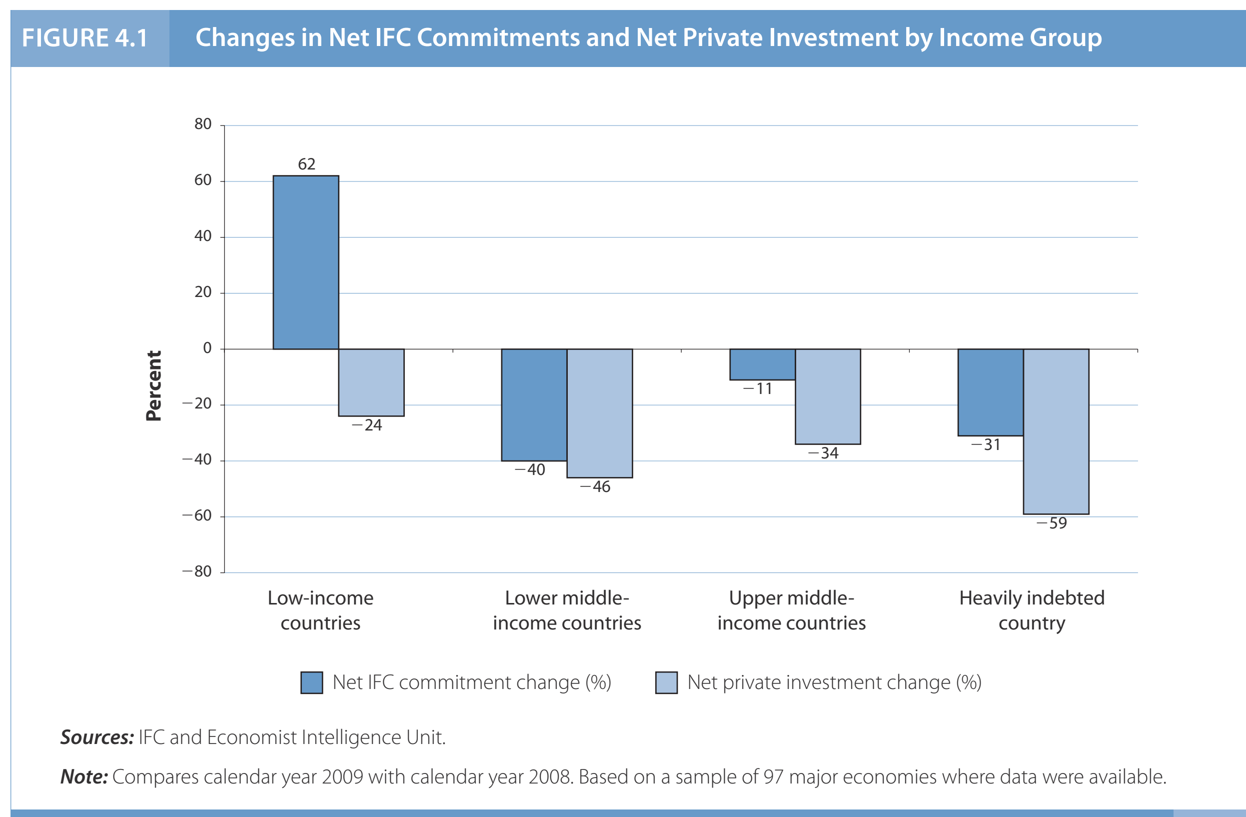
TABLE 4.3 Changes in Private Investments of Multilateral Development Banks, 2007–09

Region	IFC (%)	Comparator multilateral development bank (%)
Europe & Central Asia	0	+ 38 (EBRD); + 68 (EIB)
East Asia & Pacific	−8	
South Asia	−6	+49 (ADB)
Sub-Saharan Africa	0	
Middle East & North Africa	+6	+16 (AfDB)
Latin America & Caribbean	−13	− 54 (IADB)

Sources: IFC, EBRD, EIB, ADB, AfDB, and IADB.

Note: Compares change in volume of private sector operations between calendar years 2007 and 2009.

FIGURE 4.1 Changes in Net IFC Commitments and Net Private Investment by Income Group



Sources: IFC and Economist Intelligence Unit.

Note: Compares calendar year 2009 with calendar year 2008. Based on a sample of 97 major economies where data were available.

The increase in financing to IDA countries was dominated by trade finance. While useful in the short term, this may not be a long-term route to investment growth. Of IFC's net commitment increase in LICs between 2008 and 2009, about 60 percent came from GTFP guarantees, much of it to support banks in Bangladesh and Vietnam. Trade finance is a relatively low-risk pathway to reach SMEs in tough investment environments, including those that are or were affected by conflict (Democratic Republic of Congo, Madagascar, and Sierra Leone), but the GTFP guarantee product is a short-term product that is relatively easy to replicate. During the crisis, IFC has had strong additionality in this area, particularly as prices spiked, but as the crisis subsides and prices normalize, IFC will have to find new routes to additionality—for instance, by working with second-tier banks.[9] In addition, local currency lending—where IFC has had limited capacity—will be key in supporting SMEs in low-income markets.

A cautious investment approach prevailed in countries with larger IFC exposures, such as Indonesia, Mexico, the Russian Federation, and Turkey. The external and internal environment for new business development became tougher as the crisis unfolded. However, communications to the field were also unclear: messages about IFC's countercyclical role were combined with signals to limit new lending, protect the portfolio, and focus on the new initiatives as sources of fresh capital. It took some time for new business development, especially in Europe and Central Asia, to be restarted. Higher pricing, to reflect higher risk perceptions, held down demand in some markets.

Exceptions to the cautious trend were Kazakhstan (which was hit by its own bubble in 2007 and where IFC provided $489 million in investment support, together with advisory services, to some of the largest banks and mobilized over $110 million through loan syndications), Panama (IFC supplied $300 million of the IFI package to support the canal expansion, planned before the crisis), and Romania ($144 million in support to financial intermediaries).

IFC maintained a strong financial sector focus through trade finance guarantees, but struggled in infrastructure. The relative ease of deployment of trade finance guarantees (short term, approved under delegated authority, and not capital intensive) was in contrast to infrastructure, where IFC lacked less capital-intensive options to alleviate balance sheet concerns. In addition, some projects were scaled back and, combined with IFC's focus on renewable energy projects and IDA countries, led to smaller average deal size.[10] Another factor was IFC's increase in its pricing as market rates rose. Moreover, IFC introduced new due diligence procedures, which led to some projects in Africa being dropped because sponsors did not meet requirements. Finally, 17 percent of projects were canceled or postponed. IFC nonetheless missed opportunities for impact, not least because the Infrastructure Crisis Facility was not ready to complement investments from IFC's own account and to make a dent in the huge financing requirements of new infrastructure projects around the world.

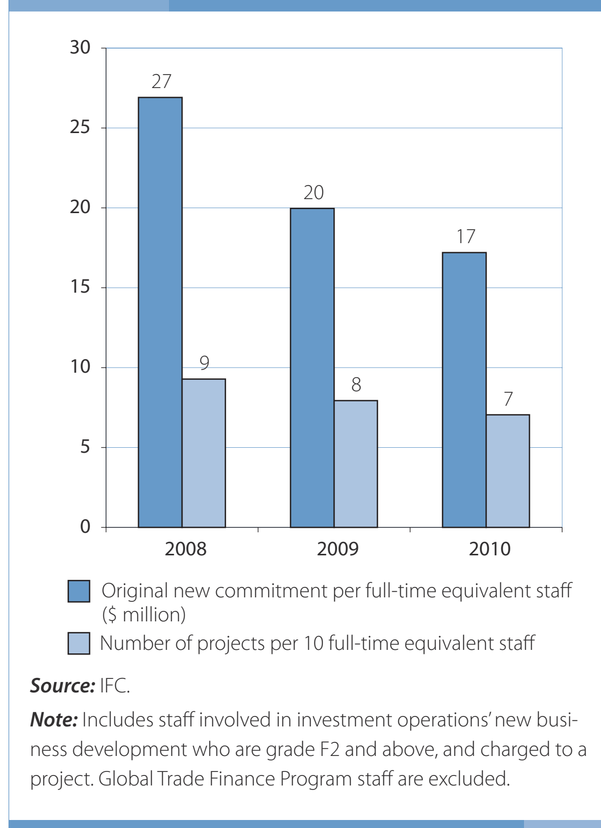
In agribusiness, IFC activities during the crisis period suffered for a variety of reasons. First, a review of supply chain issues (which followed complaints about one project and affected not only palm oil but also soybean and cocoa investments) led to an unanticipated suspension of palm oil investments, meaning that millions of dollars worth of projects in the pipeline were dropped or not pursued further. Second, the food crisis had the effect of raising food company profitability in a few cases, which limited the need of some larger entities for financial support from IFC. Trade finance and liquidity helps agribusiness indirectly, particularly SMEs, although increases here did little more than offset the drop in IFC's direct agribusiness investments.

A cross-cutting challenge to IFC's crisis response is considerable internal reorganization. IFC has experienced rapid organizational change in the last few years, including considerable redeployment of staff and reengineering of business processes. Feedback from staff suggests that these changes have had adverse effects on new business development. First, they have created career uncertainty and presented a distraction that has negatively affected productivity. Second, existing incentives have less traction, since managers and staff moving to new teams face few consequences for not meeting targets and goals established with their old teams. Third, resources are constrained as internal changes absorb managerial and staff time, adding to the additional pressure created by the new crisis initiatives. Looking at productivity in terms of new business realized compared with investment staff involved with new business (figure 4.2), these points seem to be generally supported. Other factors, such as a shift in incentives toward portfolio protection and tighter conditions for approving new credit, may also have played a role.

Implementation of New Initiatives

Initiative start-up speed can be considered comparable to industry standards, but it has been slow in relation to crisis needs. It takes IFC an average of about nine months to go from an early review to disbursement in a private equity fund. Most initiatives during the crisis started disbursing six to nine months after inception. However, implementation was slow in the context of the three-year crisis-response horizon embedded in the design of IFC's crisis response and given the recognized need to front-load assistance for maximum impact. Meanwhile, other IFIs moved faster to ramp up investments in the crisis period, in some cases with the aid of capital increases (EBRD, EIB, Proparco).[11]

FIGURE 4.2 Productivity of IFC Investment Staff, Fiscal Years 2008–10



Source: IFC.

Note: Includes staff involved in investment operations' new business development who are grade F2 and above, and charged to a project. Global Trade Finance Program staff are excluded.

In general, the challenges associated with operational implementation of the new initiatives were underestimated. Challenges that materialized included complexities associated with accommodating the preferences and requirements of partners; the need to build institutional capacity to fulfill new fiduciary duties involved in managing third-party money; significant added demands on staff for design and implementation, which had to be accommodated within a self-imposed hiring slowdown and in the context of rapid internal reorganization; weak incentives to put projects on the initiatives' books in countries and sectors where exposure limits have not been binding (most countries and sectors); weak ownership in the Regions (origination of the initiatives in Washington sped up matters initially, but created buy-in problems in the field); the limited the urgency felt by of many public entities to make funding commitments in the context of tight fiscal conditions; and the large number of initiatives and their simultaneous implementation led initially in an uncoordinated approach to donors.

Of the new initiatives, the GTLP has been executed the most quickly, with strong innovation and adaption. Beyond inherent structural advantages (wholesaling, rather than individual transactions),[12] the GTLP has been relatively well designed and managed. The program, while run from IFC, was not presented as an IFC initiative, which enhanced investor buy-in (they could put their own stamp on program achievements), as did customization of the program for different constituencies. A trust fund for investments was established and steps taken toward a $1 billion guarantee pool that would be similar to the GTLP, but is not yet funded (the Swedish International Development Cooperation Agency and OPEC Fund for International Development have already made funding commitments), and a liquidity program was set up that explicitly targets food and agriculture. The innovative nature of the GTLP has been recognized by the market with a number of international awards.[13]

While the execution of the GTLP has been quicker than that of other new initiatives, it has faced several implementation shortfalls. Notably, deployment speed has been weaker than originally anticipated. The initial planning was unrealistic about the time needed for supporting governments and other partners to complete their own decision-making processes and to meet their legal requirements before funds could be committed. In terms of supervision, at the operational level IFC is tracking bank and country exposure limits, as well as a number of eligibility criteria agreed to with each utilization bank. However, the GTLP has yet to create a centralized platform to systematically record and track issuing-bank exposure across the utilization banks. Also, given its risk-sharing nature, the GTLP relies on the utilization banks such a Rabobank and Citi to conduct due diligence of the issuing banks, and then to submit names to IFC for approval. All reports from utilizing banks are currently maintained by the operations team and help generate communications with internal and external audiences. A central database/system of record is planned for introduction in early fiscal 2011.

The MEF has had strong success in mobilizing funds, but project implementation has lagged—one gap is a lack of local currency mechanisms. Mobilization was helped by IFC's strong reputation in the sector and a ready-made network of partners who were experienced in setting up and running funds. The fund structure replicated an earlier successful model: the European Microfinance Fund for Southeast Europe. However, the structure faced some early challenges, including aligning accounting procedures with those of other donors.

Foreign exchange risk and lack of demand for hard currency—the MEF's inability to lend in local currencies—has impeded stronger portfolio growth ($122 million in commitments to date, compared with $442 million mobilized). A newly approved MEF swap that enables local currency lending may speed disbursements somewhat, but more proactive efforts will be needed. In addition, the MEF has generally been geared toward the two Regions most affected by the crisis, Latin America and the Caribbean and Europe and Central Asia, but could do more to reach other Regions.

Implementation of the IFC Capitalization Fund has faced multiple issues that were not entirely foreseen at inception. The Japan Bank for International Cooperation (JBIC) contributed $2 billion while maintaining authorization power on new investments. Given an understandable preference by JBIC to advance deals in Asia, deals in other regions were initially pursued with difficulty. Regional capitalization funds are being created to help address this issue and to raise funds from investors interested in specific regions. In addition, the fund had limited staffing at the outset, no fund manager, and severely limited delivery capacity at a time when new systems and legal structures had to be established (particularly to avoid conflicts of interest).

Deals for the fund are originated by IFC investment officers, which creates additional time pressure as they strive to meet their own department accountabilities. Moreover, at the beginning, staff had no incentive to put deals forward to the fund, and processing procedures were unclear (these elements have since been addressed). Finally, while IFC has made numerous investments in funds across the world, it had no record in management of third-party funds when the Capitalization Fund was established.

The Infrastructure Crisis Facility (ICF) has been the slowest-moving of the investment platforms, with structures that take a long time to set up and weak incentives for potential partners to use the facility. The pattern of demand for this facility differed from that initially expected, in that there was little demand for rollover financing and recapitalization. This reduced overall demand for support, although new project financing needs were still substantial. On the supply side, the time needed to arrange the new structures and appoint a third-party manager was underestimated. Also, IFIs that considered participating directly did not see added value in handing over control of their funds to the ICF. They originated deals themselves and saw little incentive in turning over their implementation to the ICF. Proparco and the German agency KfW, two key potential partners, ultimately carried out the investments through their own accounts.

The Debt and Asset Recovery Program (DARP), although the newest of the initiatives (approved in August 2009), has made some progress. Commitments were at $300 million at the end of fiscal 2010, and 10 deals had been approved. Factors that contributed to DARP's progress include IFC's 10 years of work in the area of distressed assets; a strong, small network of partners with whom to launch the initiative, as opposed to having to establish new relationships with new partners; and as an in-house platform, DARP does not face the same structural and interest alignment issues that some of the other initiatives have had to resolve. DARP's biggest challenges include the impetus to encourage sales of distressed assets (banks are guarding against selling too low or lacking aggressive provisioning against nonperforming loans); a lack of infrastructure and a network of service providers (reputational risk for IFC); and internal knowledge of the products. Links with advisory services are also a work in progress.

As an in-house platform, the advisory services initiative has been easier to keep on track. Hiring new staff for some of the activities (the insolvency regime product, for example) took time, but otherwise implementation has been broadly in line with plans. Considerable experience with a wide range of partners (donors make up about half of IFC advisory services costs), both to mobilize funding and to align activities with donor interests, helped in the relatively smooth application of this initiative. The only exception was the lack of uptake of plans for an advisory component of the ICF, which was not pursued because the crisis did not generate immediate demand from governments to help them restructure existing public-private partnership transactions (financing needs were their priority concern), and donors accordingly did not provide extra dedicated funds for this purpose.

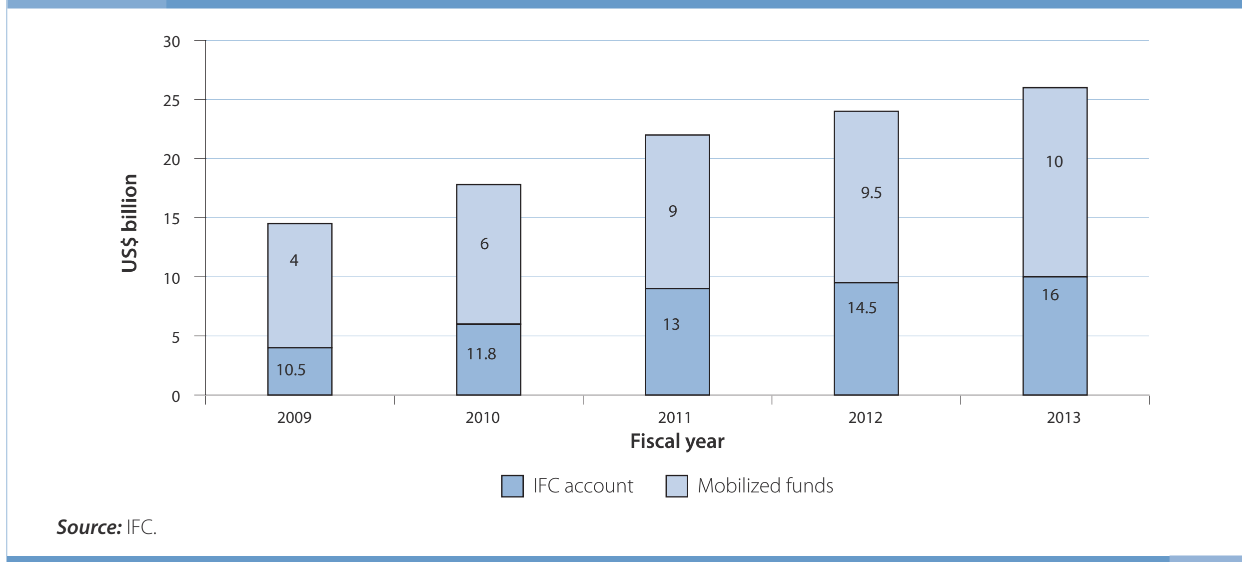
IFC has shown some flexibility in adapting to changing circumstances. For example, in April 2009, in the face of competition and crowding-out between initiatives, IFC established a Back Office Operational Team to coordinate the initiatives and to help manage fiduciary obligations to donors and investors. Management also issued directives to staff to use the initiatives, in an effort to address ownership and incentive issues in the Regions (although individual performance awards remained suspended through April 2010). New internal rules and procedures were developed regarding the use of IFC-managed donor funds for investment purposes, and Regional sub-funds and initiatives have been established both to accommodate partners' preferences and to build ownership. Also, products with novel features, such as the GTLP, were discussed by the New Product Group to assess and address risks.

Given their global nature, the initiatives were not inherently suited to conditions in some member countries. For example, the IFC Capitalization Fund market share requirement (the bank should have at least a 7 percent market share) ruled out investments in many MICs facing financial sector instability, such as Colombia, Hungary, Mexico, and Ukraine, since the valuations would be too high for the fund to sustain.

Coordination

The unprecedented degree of IFC's partnering with other DFIs and commercial investors, while it took time to develop, has the potential to broaden the effect of IFC's crisis response and to expand its post-crisis role. The new partnerships have already helped IFC leverage its own funds

FIGURE 4.3 IFC Financing Projections, 2009–13



Source: IFC.

to support a larger crisis response than it would have been able to achieve on its own. There is also some evidence that IFC's mobilization efforts will result in the allocation of additional funds from government sources for development purposes and, specifically, for private sector development. In particular, the Asset Management Company (AMC) has the potential to materially shift IFC's funding model and development reach. By 2013, it is anticipated that some $10 billion of investments would be supported by mobilized funds, nearly matching IFC's own investments in the Region of $16 billion, for total financing of $26 billion.

As new partnerships develop, important risks are likely to emerge that need to be managed carefully—notably conflict of interest. Separate legal entities have been created (the AMC and the entities it oversees, the IFC Capitalization Fund, and the Sovereign Wealth Fund) to help reduce potential legal liability to IFC, and managers and staff have been hired from outside IFC. Synergies are apparent—for example, investments are originated, processed, supervised, and exited through regular IFC investment operations. But there are also conflicts, real and perceived. The AMC manages and is responsible to the investors in its funds, while IFC is responsible to its Board members. While co-investment is the objective going in, divestment may take place at different times, leading to varying treatment of the same client. IFC tends to be a long-term investor, while funds generally have a more short-term perspective, which may lead to clashing objectives. Also, the funds are overseen by an entity (AMC) that has IFC's executive vice president and chief operating officer as its chair, and some managers and staff can move between the AMC and IFC, which presents further potential conflicts. Challenges related to fiduciary duties and corporate governance arrangements will need to be given constant attention as AMC and IFC co-evolve. [14]

Second, the pursuit of commercial returns for investors (IFC Capitalization Fund, MEF) may conflict with the need for IFC to focus on development impact and additionality. Evaluation shows that financial sustainability tends to go hand-in-hand with development impact and additionality, but the latter could be compromised in the pursuit of purely commercial interests. Rewarding fund managers for achieving financial targets, as in the case of the MEF (assets under management) and the Capitalization Fund (capital appreciation), may limit the urgency of pushing forward with achieving difficult development goals in frontier markets.

For now, the priority needs to be on disciplined implementation of the initiatives and fulfillment of objectives. Alternatively, initiatives that are no longer relevant could be dropped. Delays are particularly costly if they immobilize the capital of partners and that of IFC in a general environment of constrained financial capacity. Strong and consistent monitoring and evaluation (M&E) of performance will be a necessary component as implementation proceeds, and here current practices (described above) will need to improve.

At the country level, there appears to have been a rise in joint IFI operations in the crisis period. IFIs shared pipeline data in some Regions (Europe and Central Asia and Latin America and the Caribbean), conducted joint due diligence, and realized more joint deals than in the pre-crisis period, a time acknowledged by IFIs as one in which competition was more the norm than collaboration.[15] The most notable case of cooperation in a single project was the

TABLE 4.4 Private Sector Deals Supported Jointly by IFC and Other IFIs in Case Study Countries, 2008–10

Case study country	2008		2009		2010	
	Number	$ million	Number	$ million	Number	$ million
Bangladesh	0	0	0	0	1	12
Colombia	0	0	2	52.7	4	126
Georgia	0	0	2	170	1	20
Hungary	0	0	0	0	0	0
Indonesia	0	0	1	40	0	0
Jordan	1	120	0	0	0	0
Mexico	0	0	1	12	3	95
Nigeria	0	0	2	15	2	14
Ukraine	1	50	0	0	3	81
Vietnam	2	7	2	35	1	24
Total	4	177	10	334.7	15	372

Source: IEG.

combined support for the $2.3 billion Panama Canal expansion, to which IFC contributed $300 million. The project had originally been expected to blend commercial and IFI finance, but was ultimately financed by IFIs, because commercial investors pulled back. Table 4.4 shows the patterns in joint deals between IFC and other IFIs among the countries that IEG visited. The number and volume of joint deals more than doubled between fiscal 2008 and 2010.

Within the Bank Group, IFC has largely carried out its crisis response in parallel with the World Bank and MIGA, rather than through joint plans and activities. Each institution focused on similar areas (financial sector, infrastructure), although generally not through direct cooperative efforts. Joint Bank/IFC projects show an increase between fiscal 2008 and 2009, from 6 to 15, although this represents only 7 percent of IFC's projects in IDA countries (World Bank 2010g). Through its joint marketing agreement, IFC and MIGA recently agreed to several joint transactions.

IFC's capital position and deliberate preference for portfolio protection limited joint initiatives. IFC's moderate capital headroom has meant that IFC could not come close to matching the increased lending of the IBRD, which limited cooperation potential to some extent. Given IFC's deliberate preference for portfolio management over new business, the two institutions often went in opposite directions in terms of financing support to countries, as in Indonesia and Mexico. Even accounting for IFC's balance sheet constraint, the value added of the World Bank Group could have been enhanced by greater alignment of operations—for instance, in support of new infrastructure public-private partnership arrangements that lacked the requisite financing, bank capitalizations, and financial sector restructuring (as long as conflict of interest issues could have been managed properly).

Collaboration between the World Bank, IFC, and MIGA is important for an enhanced Bank Group crisis impact and needs to evolve with changes in the external environment. A key policy task is to ensure a smooth transition of demand from government to the private sector. This requires exploiting synergies within the Bank Group to support the private sector through policies, regulation, and access to finance, while also strengthening government capacities to regulate private sector activities effectively.

Coordination between IFC investment and advisory operations has been stronger than in the past, although there is still room for greater integration. Advisory services operations have supported IFC's investment operations during the crisis period in trade finance, microfinance, and nonperforming loan management. At the same time, new advisory services activities have focused more on awareness-building and diagnostics than on implementation of capacity-building measures and generation of new investment opportunities.[16]

Early Outcomes

IFC's new initiatives initially had positive signaling effects on market psychology and contributed to the perception of a vigorous global response to the crisis. The initiatives were designed quickly and announced at the height of the crisis, and some were incorporated in announcements by the G-20. Nevertheless, impact has lagged expectations, due to the slower-than-expected implemen-

TABLE 4.5 Performance of the GTFP and the GTLP, July 2008 to June 2010

Activity	GTFP (July 2008 to June 2010)	GTLP (July 2008 to June 2010)
Funds deployed	$5.8 billion (100% from IFC)	$1.5 billion ($0.34 billion from IFC)[a]
Funding mobilization ratio	1:1	3.5:1
Number of utilizing banks	160	7
Volume of trade supported	$7 billion	$6.1 billion
Trade $ supported/ IFC commitments leverage	1.2:1	18:1
Number of trade transactions	7,950	4,178
Trade # supported/ IFC commitments leverage	$729,560 pro rata cost to IFC per transaction	$239,349 pro rata cost to IFC per transaction
Percent share of transactions supporting SMEs ($)	7%[b]	9%
Percent share of transactions supporting SMEs (#)	52% [b]	74%
Percent share in Africa ($)	25%	17%
Percent share in Africa (#)	21%	7%
Percent share in IDA ($)	51%	29%
Percent share in IDA (#)	53% [b]	19%
Average size of trade transactions	$0.9 million	$1.5 million
Average tenor	5 months	6 months

Source: IFC.

a. Not including parallel financing.

b. To March 2010 (full transaction by transaction data not yet available through June 2010). SME transactions are those with guarantees of less than $1m.

tation (deployment is less than half of what was expected by now) and lower leverage than originally anticipated.

Two initiatives have had strong achievements to date in addressing critical crisis needs: the GTFP and the GTLP. These programs have had the broadest reach of all the initiatives during the crisis period, with particularly high leveraging of IFC resources in the GTLP. During fiscal years 2009 and 2010, the GTLP supported $6.1 billion in trade through over 4,000 trade transactions and deployment of $1.5 billion in funds ($0.3 billion from IFC) through 7 banks. This contrasts with $7 billion in trade supported through the GTFP during the crisis period through nearly 8,000 trade transactions and $5.8 billion in guarantees from IFC. In each case, IFC has been able to target SMEs and to make a contribution to trade in Sub-Saharan Africa with relatively low transaction costs (table 4.5). The IDA reach of the GTFP has been somewhat stronger, however, which may reflect the less-stringent IDA reach target of the GTLP (20 percent).

At the sector level, comparisons are more difficult to make because of weaker tracking in the case of the GTLP. The GTFP has supported over 50 industries during the crisis period. These ranged from agricultural goods (21 percent) and oil and gas (17 percent) to consumer goods (3 percent) and plastic and rubber products (2 percent).[17] The GTLP tracks goods supported, which seems to indicate that agriculture and forestry, oil and gas, mining and metals, and low-end industry were the main industries involved, but aggregation is difficult due to multiple classifications and dissimilar systems in different banks. This result is possibly a trade-off of the more wholesale approach of the GTLP and less oversight of issuing banks.

The wide reach of the GTFP and the GTLP potentially provide IFC with tremendous sector and country knowledge, but this potential may not be realized. The GTFP has led to a number of realized investments by IFC, but the volume is small relative to the overall reach of the GTFP. More proactive sharing and analysis of GTFP data may be helpful going forward.

Among the other initiatives, while MEF implementation has lagged, signs are promising. The MEF has invested in 17 microfinance institutions in 9 countries in 2 Regions—Latin America and the Caribbean (35 percent) and Europe and Central Asia (65 percent)—reaching over 1.6 million people, most of whom are either women or rural inhabitants (or both). Most countries in which the MEF is operating have seen reductions in GDP growth (with an average decline of 8.5 percentage points), and four of the nine dipped into negative growth, indicating some degree of addressing country needs, and not simply to strong existing clients. Ultimately, the MEF expects to support more than 100 microfinance institutions in 40 countries by 2014, to support lending to 60 million low-income borrowers, so considerable implementation progress is still needed.

The distressed asset platform is beginning to address a substantial demand gap. As non-performing loans continue to rise, especially in Europe and Central Asia, there is a growing demand for distressed asset purchases. DARP is beginning to address this need, with 10 projects approved to date (investments in nonperforming loan pools, service providers, and restructurings) that have the potential to help stabilize financial sectors and contribute to maintaining productive capacity and economic activity. The need for a network of service providers may, however, suggest an issue of timing with the roll-out of the initiative. Faster

uptake of the third phase of IFC's crisis-response strategy—accelerating the recovery—may have been possible with the required infrastructure in place.

Progress with the bank capitalization and infrastructure initiatives is less encouraging. The three deals committed through the IFC Capitalization Fund have helped build a degree of market confidence in Paraguay, the Philippines, and Serbia, but the fund has had no deals, and thus no impact, elsewhere. The ICF has committed to three deals. One of these was a $10 million investment to support a port project in Vietnam that was at risk of being dropped or postponed, although the project may have survived without the ICF's nominal contribution (less than 7 percent of the overall financing package). With few funds disbursed, the facility has yet to have much traction. The ICF may have had a mobilizing effect, in that one of the IFIs interested in supporting the ICF (Proparco) has increased its own infrastructure investments.[18]

IFC's advisory work in response to the crisis has generally been appreciated by clients, although it has had limited effect in producing institutional changes. IFC has carried out a number of awareness-building workshops, as well as diagnostic work with specific institutions, covering nonperforming loan management. However, few activities have led to implementation of specific institutional change programs. IFC's work on insolvency regimes has also not yet had much impact in bringing about systemic changes.

Going forward, M&E of the initiatives will need to be made more systematic. Most of the new platforms were established with accompanying results frameworks, but these frameworks have focused more on funds mobilization and financial targets than on achievement of development goals. Also, where development-reach targets, such as IDA concentration, were considered, they were sometimes left to be determined, as in the case of the bank capitalization platform. Or targets have been set at a level that was less ambitious than the targets for IFC as a whole (20 percent of projects in the case of the ICF, versus 50 percent for IFC overall).[19]

Reporting of performance has been taking place at different intervals and at varying levels of detail. The GTLP program, for example, has not monitored sector distribution closely and consistently (it has collected goods descriptions from utilization banks, although they are not in a standard format that could be readily aggregated by sector/industry). The use of external fund managers has further complicated M&E, because they report progress using their own systems (MEF), which are not necessarily consistent with those of IFC. With the exception of DARP, the new investment platforms have yet to be covered by the regular IFC M&E framework. This is also the case with the GTFP, even though it was established in 2004.[20]

It is too early to assess the full development results of individual operations. But it can be observed that opportunities for strong additionality and development impact were missed. This is apparent, given the huge private sector financing gaps that emerged across a range of sectors and countries. Feedback from country visits indicated frustration that IFC had not been able to match the upward pattern of private sector investments of other IFIs and help to fill growing financing gaps. Experience of past crises shows distinctly that IFC has the best chance of maximizing its additionality and development impact if it makes an investment commitment in the 12 months following the onset of a crisis (figure 4.4).

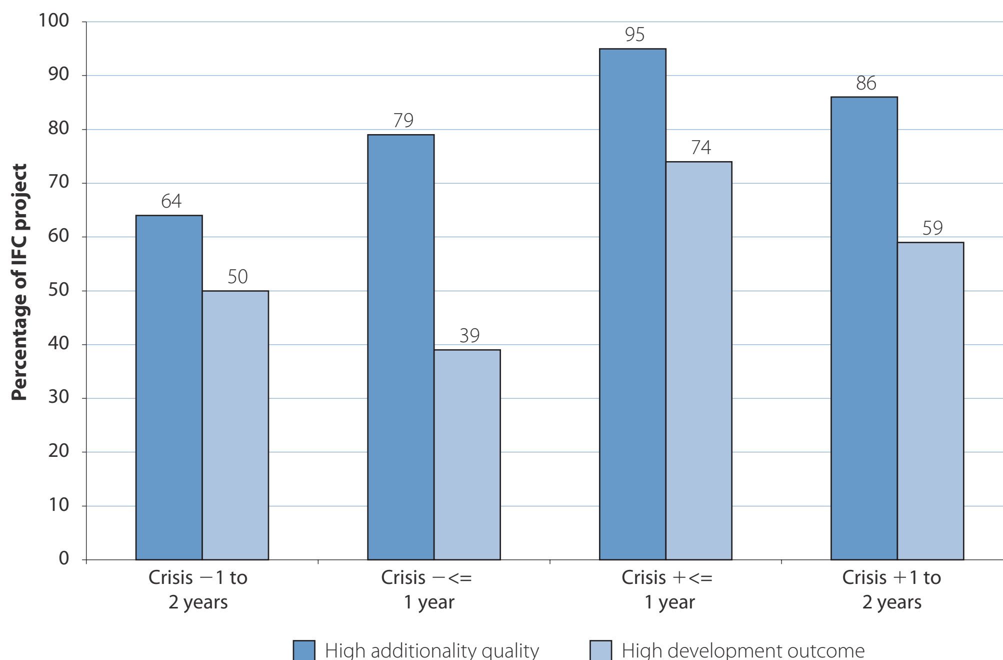
Experience has shown the importance of visible IFC investments in large flagship companies of systemic importance to a country, which sends strong signals to other market players (IEG 2008a). **Only a few investments met this standard during this crisis** (table 4.6). In the countries IEG visited as part of this evaluation, while over half of investments were crisis-response or crisis-related interventions, less than a quarter of investments were with companies of systemic importance. Systemic interventions made up a major share of investments in Georgia and half of the investments in Nigeria, but represented a small share of new business in the other countries that IEG visited. Box 4.8 looks at the nature of the systemic crisis response by IFC in Georgia, the conditions that enabled it, and possible lessons that can be drawn.

Among the nonsystemic interventions, while IFC's impact on the market was weaker and more localized, its financial additionality was usually noticeable. For example, an investment in a telecommunications company in Nigeria was the direct result of a lack of alternative finance for the company. This was also the case for two wind farm investments in Colombia, where the company had been in advanced discussions with commercial banks when the crisis hit.

The prospects for impact going forward will be influenced by how well IFC shifts from a defensive portfolio management posture to more aggressively developing new business—including through the Asset Management Company. As more capital becomes available to IFC through a combination of returning profitability, a $200 million selective capital increase, possible issuance of a hybrid bond, and higher levels of external funds mobilization, IFC will have an opportunity to be more aggressive in new business development. It will be important to make new investments in countries with improving economic conditions (evaluation has shown the development and financial benefit of such an approach) and to maintain support to countries and Regions with persistent, high levels of poverty and low levels of private investment, notably in Sub-Saharan Africa.

Future impact will also hinge on how well IFC meets the special challenges of operating in IDA countries, partic-

FIGURE 4.4 Additionality and Development Outcomes of IFC Investment Operations in Past Crises



Source: IEG.

Note: Based on the number of months between the onset of a crisis and the investment commitment by IFC. Countries included in the analysis: China, December 1998; Brazil, October 1998; Russian Federation, August 1998; Korea, August 1997; Mexico, December 1994; Turkey, April 1994 and November 2000; Indonesia, November 1997; Argentina, December 2001; Thailand, July 1997; the Philippines, July 1997; Vietnam, 1997; Ecuador, August 1998; and Lithuania, December 1995.

TABLE 4.6 Nature of IFC Investments in Case Study Countries

Country	Number of interventions (fiscal 2009 through Q3 2010)	Volume of interventions (fiscal 2009 through Q3 2010), US$ million	Crisis response (%)		Crisis relevant (%)		Other (%)		Crisis response and systemic (%)	
			#	$	#	$	#	$	#	$
Bangladesh	6	164	67	85	0	0	33	15	0	0
Colombia	15	244	7	2	13	28	80	70	7	2
Georgia	6	231	84	78	0	0	14	22	84	78
Hungary	0	0	0	0	0	0	0	0	0	0
Indonesia	9	224	22	20	56	75	22	5	11	18
Jordan	7	156	57	57	29	36	14	7	29	22
Mexico	18	248	11	63	6	5	83	32	6	61
Nigeria	14	841	50	81	7	5	43	14	50	31
Ukraine	9	262	44	26	22	39	34	35	0	0
Vietnam	9	391	56	90	0	0	44	10	33	68
Average	10	307	44	56	15	21	41	23	24	31

Source: IEG.

Note: Crisis response interventions are those that are part of IFC's crisis-response framework at either the global, Regional, or country level. Crisis-relevant interventions are those that, although not part of the global, Regional, or country-level crisis response, did help to address financing needs related to the crisis.

BOX 4.8 GEORGIA: A SYSTEMIC CRISIS RESPONSE BY IFC

The dual crises in Georgia in 2008 had strong adverse effects on the economy: trade fell by a third, private capital inflows dropped by more than half, and remittances and tourism were also badly affected. Growth slowed sharply, and declined in 2009. There was an initial run on deposits, and confidence in the banking sector was very fragile.

IFC interventions

As part of the quickly developed IFI package for Georgia, supported by the Bank-led joint needs assessment, IFC has made $182 million worth of investments (loans, interest rate swaps, and trade finance lines) to help recapitalize the country's two leading banks, Bank of Georgia and TBC. These banks represented more than half of banking sector assets at the time, and were both IFC clients. The EBRD provided cofinancing of a similar value, alongside smaller investments by the Netherlands Development Finance Company (FMO) and the German Finance Company for Investments in Developing Countries (DEG).

Early outcomes

The banking sector was prevented from collapsing, and confidence has returned (deposits are on an upward path and lending to SMEs is restarting). According to one key stakeholder, IFC and the EBRD made "useful public good interventions." However, foreign currency dependence remains (over three-quarters of loans are denominated in U.S. dollars).

Lessons

- **Speed and scale**. Rapid IFI responses with significant commitments of financing were important in maintaining confidence in the country and, specifically, fostering banking sector stability.
- **Existing relationships**. Country presence and existing relationships with key banking sector players (TBC and Bank of Georgia) helped IFC's responsiveness. It also meant IFC had a financial interest (ensuring sustainability of prior investments).
- **Strong coordination**. The value of a quick and comprehensive joint needs assessment, which provided a clear division of labor among IFIs (and facilitated investment front-loading), was clear.
- **Strategic fit**. IFC's corporate strategic focus on IDA and post-conflict countries fit with the country profile of Georgia.
- **Client commitment and institutional strength**. Strong government ownership and capacity, with clear objectives, had a material effect on the speed and nature of the response.
- **Small country**. It was realistic for IFC to seek to have a systemic effect.

Challenges

Several important challenges nonetheless remain. These include: majority IFI ownership in the banks (there is a need to divest and support long-term banking sector development); local currency/capital market development; boosting real sector lending; sound risk management in good times (through portfolio diversification in particular); and more balanced growth in the economy, away from more speculative sectors such as real estate.

Source: IEG.

ularly in Africa. As it continues to increase its activities in poor countries, IFC needs a sharp focus on its development results. IFC performance has historically been weakest in Africa, and it is not certain that a higher level of investing will lead to proportionately stronger development impact. Some sectors have fared better than others, notably infrastructure, while financial sector investments have generally achieved lesser results. Environmental and social performance have also been poor. Key challenges, which have consistently held down performance and will need to be addressed, include tough business climates, weak sponsors, and less-than-satisfactory IFC work quality (in appraisal and supervision, including that in the area of environmental and social effects, where additional capacity-building efforts may be required).

Assessment of MIGA's Response

MIGA's heavy focus on the financial sector in the Europe and Central Asia Region in its new business operations during the crisis period was in line with initial crisis needs. The financial sector in the Europe and Central Asia Region was at the heart of the crisis and there was an urgent need for support. MIGA supported several key European banks in the Region and helped them to recapitalize foreign subsidiaries that had been weakened by the crisis. The drop in cancellations also meant that MIGA played a supportive crisis role with existing clients.

Nevertheless, MIGA's response did little to address needs for new political risk insurance outside the Europe and Central Asia Region. Political risk is consistently a top con-

cern for investors in developing countries (MIGA 2009). However, MIGA's unduly restrictive Convention has been a major constraint on its ability to support the type of transactions most in demand for political risk insurance. The changes in MIGA's Convention, in effect from November 2010, will give MIGA significantly broader scope. Awareness of MIGA among major private-sector parties in the countries visited for this evaluation was very low, indicating a need for MIGA to strengthen its business development function and to address internal constraints to its client responsiveness, including slow business processes.

As recognized before the crisis, but even more urgent now, MIGA needs to revamp and refocus its business development activities in order to improve its capacity to respond better to meet crisis-related political risk insurance demands,[21] as well as to meet its own business goals and to use the new opportunities provided by its recently amended Convention. The joint marketing agreement signed by IFC and MIGA in February 2009 and broadened in March 2010, to allow deployment of MIGA staff to IFC offices in East Asia, is an important initiative, giving MIGA access to IFC's field presence and enabling cross-selling of services.[22] This arrangement has begun to produce a small pipeline of deals.

To improve its capacity to respond, MIGA also needs to address several other internal constraints, including simplifying cumbersome business processes, aligning its incentive framework to business goals, and improving underwriting quality. Addressing these internal constraints is a must if MIGA is to make use of the greater product flexibility and new opportunities provided by the change in its Convention to improve its responsiveness.

Chapter 5

This first report of the evaluation of the Bank Group response to the global economic crisis has focused on key aspects of the design, implementation, and early outcomes of that response. This chapter distills the lessons learned from and issues raised by the analysis thus far, focused on both possible future crisis episodes and responses and the more immediate—and in some cases remedial—issues of quality, impact, and sustainability of the measures taken to date.

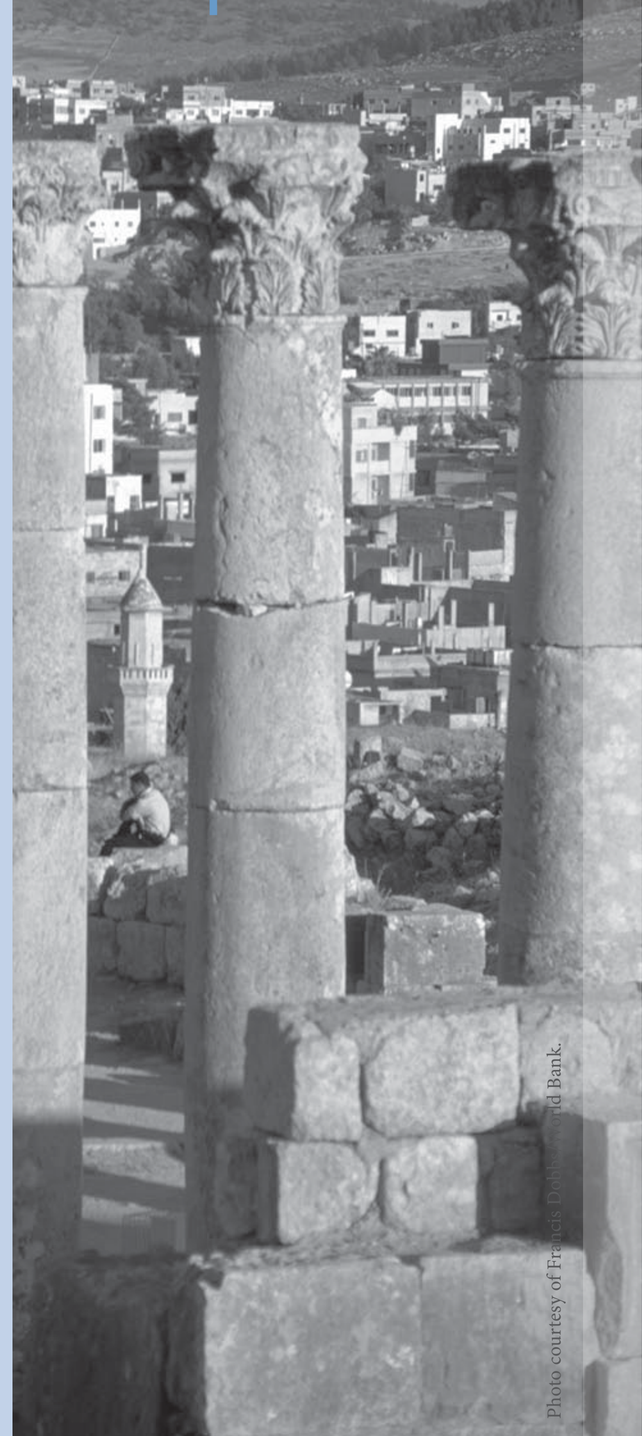


Photo courtesy of Francis Dobbs/World Bank.

Lessons and Issues for the Future

Introduction

This first report of the evaluation of the Bank Group response to the global economic crisis has focused on key aspects of the design, implementation, and early outcomes of that response. This chapter distills the lessons learned from and issues raised by the analysis thus far, focused on both possible future crisis episodes and responses and the more immediate—and in some cases remedial— issues of quality, impact, and sustainability of the measures taken to date.

At the same time, the further evolution of the crisis is still unclear, even after the considerable improvements experienced by most developing countries during the second half of 2009 and the first quarter of 2010. Recent developments in Europe cast doubts on the speed and strength of the overall recovery in the world economy, and this could put renewed pressure on global demand and, therefore, on developing-country exports and private capital flows. These risks of a prolonged recession have implications for the demand for Bank Group financing going forward, and for the Bank Group's ability to meet that demand, even after the general capital increase negotiated in fiscal 2010.

In these turbulent times, the current real-time evaluation, and the issues and lessons gleaned from it, take on critical importance.

Lessons from Past Crises

IEG's *Evaluation Brief*, "Lessons from World Bank Group Responses to Past Financial Crises," issued at the height of the global economic crisis in December 2008, pointed to several areas that require close attention (IEG 2008a). These included:

- **Quality, focus, and selectivity.** The *Brief* noted that the speed and quality of the Bank response were crucial for good outcomes both during and after crises, and that past crisis support was much more successful when it was nested in a results framework (explicit or implicit) that incorporated post-crisis recovery, had selective coverage, and focused on the Bank's comparative strengths.
- **Financing modalities and organizational arrangements.** The *Brief* noted that programmatic development policy lending, not available in earlier crises, could usefully address crisis needs, that additional instruments might also be needed for initial liquidity support as part of multi-partner packages, and that internal organizational arrangements affect preparedness, timeliness of response, and appropriateness of instruments.
- **Coordination with partners.** The *Brief* noted that differences in view surface quickly during crises, waste time, and undermine institutional effectiveness and results.
- **Timing and nature of IFC investments**. IFC's additionality is stronger following a crisis and is associated with better development results. Key IFC interventions—investment in flagship companies, visible restructurings of major industrial clients, or large syndications of commercial bank loans, for instance—that capitalize on its reputation as an investor and honest broker can have a strong signaling effect that helps restore market confidence, particularly if announced at the peak of market uncertainty.
- **Opportunities and constraints for greater IFC impact.** Crises can present opportunities to reach new clients and to be rewarded for taking risks. But opportunities are often missed because staff attention was diverted and because of efforts to restructure existing projects, which undermines IFC's ability to function as a countercyclical financier.
- **IFC's internal practices.** IFC's effectiveness was better when it acted quickly to adapt its strategies, programs, and exposure to deteriorating economic conditions.
- **MIGA's risk-mitigation capacity.** This was tested by past crises, during which two of the three claims in MIGA's entire history were paid. Political risk—the mitigation of which is MIGA's mandate—is often heightened during crises, and infrastructure projects that are inadequately structured or awarded in a nontransparent manner were particularly vulnerable to political risk events.

To a large extent, this first phase of the Bank Group's crisis-response evaluation has reaffirmed the importance of the above areas. It has also found evidence that some of these lessons were incorporated in the current crisis response and that further progress is needed, particularly in the areas of instruments, organizational arrangements, nature and timing of IFC investments, and internal coordination within the Bank Group.

Emerging Lessons

An overarching lesson emerging from this evaluation relates to the value of a strategic approach to the World Bank Group's crisis-response effort, integrating six elements brought to the fore by of this crisis experience.

First, in these uncertain times, early warning, preparedness, and timeliness, including an eye to long-term capital adequacy, are key attributes for the World Bank and IFC.

Second, the benefits of the Bank's country focus go hand-in-hand with the need for a cross-country strategy to ensure consistency with global initiatives and to deploy scarce resources where they produce the best results.

Third, even as it responds to crisis, the World Bank Group needs to keep the requisites of sustainable long-term growth—among others, fiscal and debt sustainability, the structural reform agenda, and the environmental and climate change agenda—in focus.

Fourth, particularly in averting a crisis, it is costly to let the Bank's expertise in key areas (in this case, the financial sector) decline.

Fifth, there is a need to balance innovations and new initiatives in the middle of a crisis with continuity of support using more established and proven approaches.

And **sixth**, coordination is needed among the World Bank, IFC, and MIGA (and with other partners) to capitalize on linkages across government and business and to catalyze economic activity.

The findings also point to specific early lessons for each Bank Group institution.

World Bank

Continuing Bank involvement, active policy dialogue, and good analytical work are important prerequisites. This is evident from the case study countries—both where the Bank Group response worked well—as in Indonesia, Mauritius, Mexico, and Ukraine—and where it did not—as in Hungary, where the Bank had ended its involvement with the country's graduation.

The Bank should balance advocating global priorities with country ownership. One particular lesson from the country studies is that the Bank's identified sectoral and thematic crisis-response priorities, whether in special initiatives or otherwise, need to be presented as menus for countries' selection to avoid the possible impression of advocacy, especially where the Bank may be a financier. Bank advice about cross-sectoral spending priorities needs to be grounded in transparent and objective public expenditure analysis that takes into account relative benefits and costs across sectors—and trade-offs across sectors and time—in the context of a broader analysis of macroeconomic, fiscal, and public-sector debt sustainability.

Greater clarity is needed on the use of instruments for crisis response. This is necessary to ensure that resources are allocated for the greatest impact, given country needs and global priorities. It is also necessary to ensure rapid processing of lending operations. Country studies have shown that teams used DPOs, additional financing, and other instruments in innovative ways, with the endorsement of the Operations Committee and the approval of the Board. However, greater clarity on policy conditionality of crisis operations would have facilitated the Bank's response.

Especially in turbulent times, the Bank needs to be better positioned to anticipate crises, more sensitive to crisis risks

Photo courtesy of Uri Mechitov/World Bank.

and early warning signals, and ready to act in a timely manner that preserves quality. The Bank was not ready when the crisis struck, and more anticipation and early warning would have facilitated its response. In this respect, the evaluation points strongly to the following specific lessons:

- **The Bank needs to update and share economic and financial projections when they have changed substantially as part of its role in providing early warning and alerts to clients and the international community.** In hindsight, an example is the value that could have been derived from sharing updates at the Annual Meetings and Development Committee Meeting of October 2008.
- **The Bank's capacity in the financial sector needs to be maintained**. It was a mistake to let the Bank's capacity in this area lapse, especially in light of the implications for the Bank's relevance to the dialogue with MICs and in times of crisis. This was an important lesson of the East Asian crisis, and had led to a major investment by the Bank in critical skills, many of which have now been eroded. The Bank's 2007 financial sector strategy was, in hindsight, excessively *laissez-faire* with regard to the institution's role in helping to detect and address structural weaknesses. As the Bank rebuilds in the financial sector, it should also not lose sight of the lessons learned from an even earlier era of financial sector reform and development, both at the policy level—on the need for steadfast attention to capital adequacy, independent supervision and regulations, and timely and transparent reporting—and in investment lending—on the need to ensure that participating financial intermediaries have balanced assets and liabilities with respect to maturities and foreign exchange exposure.
- **It is vital to be up-to-date on diagnostic country ESW in key areas.** IEG evaluations established the critical importance of a strong portfolio of diagnostic ESW to inform the dialogue and underpin lending year after year. This evaluation reaffirms that lesson, with particular emphasis on crisis situations, which by their nature will always have a stochastic element. It also reaffirms the particular importance of Public Expenditure Reviews as a signature Bank contribution in supporting country efforts to prioritize across sectors and programs—whether in the context of stimulus or austerity packages—especially in light of the evaluation's finding of advocacy rather than analysis in some sectoral crisis-response engagement. In addition, the evaluation points to the importance of ensuring sufficiently frequent data collection and interpretation to track the poverty and social impacts of Bank engagement more accurately and to reduce reliance on estimates and projections.
- **Looking forward, the Bank needs to guard against the risk of AAA being "crowded out."** The Bank's extraordinary lending response to the crisis, which involved accelerating project preparation, will most likely have run down its pipeline of future lending operations. Equally, the increased stock of cumulative commitments is likely to require a more intensive implementation-support effort. With a relatively flat administrative budget outlook in the near-term, the risk that a combination of increased lending preparation (to rebuild the project pipeline) and heightened supervision will crowd out AAA efforts needs to be guarded against. No less than the quality of future lending is at stake, whether this takes the form of investment lending or of DPOs. The extent to which DPO-supported country programs, in particular, can generate sustainable growth depends crucially on their structural reform content; in turn, identifying the structural reform agenda with sufficient specificity hinges on high-quality AAA.
- **The IBRD's financial headroom in a crisis is central**. This experience reveals the importance of anticipating capital adequacy at the outset, as well as its use during the crisis. The IBRD's financial headroom—the result, in part, of a prudent financial policy, and in large measure of low pre-crisis lending driven by lack of client demand—was a crucial factor underlying the crisis response, but is now largely used up. With the likely continuation of market volatility, middle-income country demand for countercyclical IBRD lending is likely to remain robust. With the IBRD's previous "excess" capital largely committed, and a relatively small new capital increase recently approved, how constrained will IBRD's response to the next crisis be, even if the current recovery escapes a "double dip"? How will the Bank ration borrower access? During the period between the East Asian crisis and this one, countries such as Indonesia and Mexico prepaid IBRD loans, rebuilding their headroom for future borrowing while increasing the Bank's headroom for future lending. New instruments need to be put in place, involving shorter maturities or a combination of pricing and maturities that encourage early payback, possibly with a countercyclical financing facility, as adopted by other multilateral banks.

IDA must remain the Bank's flagship resource-mobilization activity. IDA fast-tracking helped to speed the processing of eligible operations, but was no substitute for increased resources. IDA disbursed 15 percent more in fiscal 2009–10 than in fiscal 2007–08 and committed 24 percent more. Although this was a substantial response, it was much smaller than that of the IBRD. And because the broader IDA15 resource envelope was agreed in 2007, there is by definition no crisis-response additionality. Though MICs have generally been more affected by the crisis, given their

greater linkages to global financial markets, LICs are far less able to bear the costs of the crisis, and hence there is a need for greater Bank proactivity on their behalf, which the work on the Crisis Response Window aims to solve.

Finally, it is crucial to assess emerging impacts early to identify quality problems and risks and remedial action. The evaluation identified quality risks and concerns in sectoral DPOs, especially in the financial sector and in infrastructure.

IFC

IFC's development role is vital, and looking beyond portfolio protection is essential if that role is to be fulfilled. In the future, IFC will need to have sufficient resources for a significant catalytic role when a new crisis strikes, and be willing to take on greater investment risk—as it has done in Africa—so that it can leverage its global reach to play a countercyclical role. Incentives and mechanisms for increased equity divestment during years of economic expansion, so that IFC is not sitting on major unrealized equity gains when a crisis hits, could also be helpful in freeing up funds for a crisis response. Active, routine portfolio stress testing can be useful, as opposed to reactive portfolio management that may crowd out new business, as in this crisis.

A crisis response by IFC has to be founded on partnerships, but cooperation needs the right incentives and supporting structures. Given the vast financing needs that a multi-country crisis generates, no single development institution has sufficient capacity to respond. Partnerships thus have the potential to make crisis-response initiatives more credible and effective. In this case, IFC's unprecedented cooperation with other IFIs and private sector partners sent important stabilizing signals to the market.

But there were different levels of success with the cooperative arrangements embodied in IFC's crisis initiatives. In some cases, partnerships allowed for effective leveraging of IFC funds (GTLP, MEF), particularly where the initiatives were not seen as solely IFC programs and where IFC's sector expertise was clearly recognized. In other cases, cooperation stalled because of nonaligned interests and decision-making procedures, incentive problems, and legal issues (capitalization fund and infrastructure facility). Going forward, IFC will need to be sufficiently sensitive to partner needs and institutional arrangements and create the right incentives for them to participate fully in joint programs.

Responding to the crisis through existing platforms and partnerships has proved more effective than working through new ones. Experience of this crisis shows clearly the benefits of having financing and advisory platforms based on existing arrangements and relationships "ready for use" (or, at least, easy to use). While innovation can be important, it would be unwise in a future crisis for IFC to develop numerous new financing platforms on the run, as it did in this crisis—particularly platforms managed by third parties or that involve fund-raising from multiple, previously untapped sources.

In another crisis, IFC's additionality and development impact would likely be stronger if IFC built on or adapted existing programs and relationships rather than establishing new ones (at least new initiatives should probably be managed through in-house platforms and draw on existing partnerships for funding), given the crucial resources and time that are eaten up in the start-up phase of new initiatives. As an immediate goal, IFC will need to step up implementation of the current crisis platforms, where still relevant, including more robust and consistent M&E arrangements to help guide resource allocation.

Finding the right level of adaptation to changing circumstances is fundamental for an effective crisis response. Careful consideration will need to be given to what change is needed with respect to the role of IFC's initiatives in the coming years, as well as the pace of internal organization and pricing changes in a future crisis. Adaptation has been a key ingredient of success for new initiatives where IFC has shown flexibility, in addressing specific country crisis needs where IFC has tailored its approach, and in instrument selection. Lack of adaptation has held back investments in many countries (notably, the pressure to focus on portfolio management at the expense of new business and slow changes in country strategy in many cases). Too much adaptation may also have been damaging to IFC's countercyclical role (considerable internal reorganization, plus rapid increases in pricing in some cases).

Going forward, IFC will need to find the right level of adaptation, including determining which initiatives continue to have relevance and which might be dropped (or put on the back burner and revived in the event of another crisis), and how new partnerships and organizational structures are best aligned with IFC's overall business model. Ensuring adequate skills and incentives for equity origination will be important with respect to the Asset Management Company, as will delivering on fiduciary duties and obligations. In a future crisis, IFC may also want to postpone rapid internal reorganization and develop mechanisms to incorporate local views and knowledge to enable a differentiated local crisis response.

The shift in IFC instruments toward trade finance guarantees was useful. Instrument mix will need to shift again as the recovery takes hold and to prepare for a future crisis. Short-term trade finance was useful to quickly address crisis needs, since it could be ramped up relatively easily through IFC's significant network of utilization banks and could help address access to credit shortfalls. It also had the advantage of absorbing less capital than other instru-

ments. Beyond the crisis, as commercial providers enter (or re-enter) the market and IFC becomes less competitive on price, IFC will need to look down market (to second-tier banks) and to other instruments to enhance its development reach and additionality, including working with more traditional investment tools in frontier markets. Enhanced direct support to infrastructure, agribusiness, and local capital markets development will be important, especially in IDA countries. Development of finance capacity in local currencies will also be one key component. Capacity to offer local currency finance was again lacking in this crisis, as in previous ones, creating considerable risks for SME clients with local currency revenue streams.

M&E arrangements for new initiatives will need to improve. The importance of robust results frameworks and rigorous M&E is well recognized, as is their role as foundations for achieving strong impact. IFC management has moved in this direction in the past five years, with measures including the establishment of department performance scorecards and the introduction of a Development Outcome Tracking System that covers investment operations.

The importance of effective results frameworks and M&E is magnified where new delivery structures are being created to ensure quick feedback on what is working well and what is not, to help guide resources allocation, and to provide for accountability. M&E of new initiatives will need to be made more systematic. The GTFP and GTLP are not covered in IFC's M&E framework, and the results frameworks that were developed tended to favor financial over development targets, which creates incentives for development impact to be traded off for financial returns. Performance reporting is inconsistent across initiatives and tracking of investments is mainly taking place outside mainstream IFC M&E systems, with the exception of DARP. This means that the development effectiveness of over $3 billion in IFC annual commitments, mainly trade finance, is currently not being systematically assessed. This gap will need to be addressed quickly.

MIGA

For MIGA, the crisis has amplified the need for more product flexibility and enhancement of business development. While MIGA's portfolio experienced a net increase during the crisis period (due to lower cancellations), and MIGA's focus on the financial sector in the Europe and Central Asia Region was strong, MIGA's guarantees have been basically flat since before the crisis, and its response did little to address needs for new political risk insurance outside the Europe and Central Asia Region. This reflected the inherent structural constraint of MIGA's restrictive Convention, which until end-2010 will prohibit it from insuring loans without associated equity investments or insuring the financing of existing assets, as well as weak business development. As mentioned in the IEG report "Achieving Value-Driven Volume: MIGA's Development Results and Institutional Effectiveness—2010," MIGA needs to revamp its business development function to reverse the current stagnation in guarantee issuance and to enable it to meet business volume targets and strategic priority goals. The recent approval of the changes to MIGA's Convention to allow greater product flexibility is an important step forward and now needs to be accompanied by more proactive business development efforts and other internal productivity enhancements by MIGA.

Issues Going Forward

The crisis created an immediate need for countercyclical spending in developing countries, which the Bank Group and others have supported. To help sustain the recovery, contribute to longer-term growth, and improve the response capacity of the Bank Group, attention needs to be given to two areas: policy change and organizational effectiveness. Policy issues concern fiscal sustainability, public-private synergies, financial sector reform, poverty and unemployment alleviation, and greener growth. In terms of organizational effectiveness, preparedness, managing quality trade-offs, coordination, and a strong results focus will be crucial.

Policy Issues

Fiscal sustainability. Economic slowdown and fiscal expansion have pushed debts and deficits in many advanced and some developing countries to unsustainably high levels. While fiscal or monetary stimulus may still be needed in some countries, policies need to reestablish sustainable macroeconomic conditions. Growth will depend on, among other things, the quality of public expenditures, where the World Bank can be valuable—for example, through more regular Public Expenditure Reviews.

Public-private synergies. A key policy task is to ensure a smooth transition of demand from government to the private sector. At the same time, there is a widespread need to

Photo courtesy of Scott Wallace/World Bank.

strengthen government capacities to regulate private sector activities effectively. The private sector, as the main engine of growth, will need to be supported through policies, regulation, and access to finance. These reforms should not be left for later stages of crisis response.

Financial sector reform. Financial sector weaknesses persist in the global economy and continue to pose downside risks to recovery in advanced and developing countries. There is a pressing need to shift from emergency support to addressing the structural weaknesses exposed by the crisis. This would involve repairing or strengthening financial systems while reforming prudential policies. The Bank Group can help, but it needs to rebuild its capacity.

Poverty and unemployment. As in previous crises, unemployment, one of the main causes of worsening poverty levels, has lagged GDP growth. Monitoring of the poverty and social effects in this crisis has emerged in an ad-hoc manner, and higher-frequency tracking is needed going forward. A greater focus on LICs and inequities in MICs is also required.

Environmentally sustainable growth. Long-term issues such as climate change and environmental problems are tougher to deal with in the face of a financial crisis, yet the sustainability of global economic growth necessitates simultaneous actions. To be effective, such longer-term investments need to be factored into any crisis response: the Bank Group's strong participation in scaling up public sector spending provides a unique opportunity. The Bank Group must build on the momentum in mobilizing funds for climate change mitigation to integrate greener development in its mainstream activities.

Organizational Effectiveness

Preparedness. As crisis-related events continue to evolve, the premium on early warning, financial preparedness, and operational readiness is at an all-time high. Stronger forecasting, with greater country/global connectivity, is crucial. Tools to optimize capital availability will be important, given that the capital headroom of the World Bank and IFC has been virtually used up and the recent capital increase provides only limited new headroom. From an operational standpoint, rebuilding Bank Group financial sector capacity is fundamental.

Quality trade-offs. The risk that lending preparation (to rebuild a project pipeline that has been depleted as part of the crisis response) and supervision (of a now-larger stock of cumulative commitments) may, under an essentially flat administrative budget envelope, crowd out critical analytical and advisory work—with adverse consequences for the quality of future lending—needs to be carefully managed.

Coordination. The premium on partnership and coordination is particularly high at times of market uncertainty. Moreover, financial and capacity constraints make coordination with external partners—and the focus on selected areas where the Bank Group has comparative advantage—imperative. A significant part of the Bank Group's response has taken place in the context of partnerships with the IMF, regional banks, and others, but the challenge remains to sustain and deepen cooperation. Strong internal cooperation, to capitalize on unique linkages across public and private sector spaces, will also be important.

Focus on results. A sharp focus on results, which incorporates longer-term structural change, is critical when Bank lending is at an all-time high and concerns persist about the sustainability of the global recovery. This situation—together with the greater focus than in the past of conditionality based on a few prior actions, with country ownership—places a premium on ensuring clear and measurable objectives, M&E, and Bank Group commitment to implement corrective actions.

Photo courtesy of Scott Wallace/World Bank.

Statistical Appendix

Photo courtesy of Thomas Sennett/World Bank.

Statistical Appendix

Table A1a.	World Bank: Total Commitments, Fiscal Years 2007–10
Table A1b.	World Bank: Total Disbursements, Fiscal Years 2007–10
Table A2a.	IBRD: Commitments by Region, Fiscal Years 2007–10
Table A2b.	IDA: Commitments by Region, Fiscal Years 2007–10
Table A3a.	IBRD: Disbursements by Region, Fiscal Years 2007–10
Table A3b.	IDA: Disbursements by Region, Fiscal Years 2007–10
Table A4a.	IBRD: Commitments by Top Borrowing Countries, Fiscal Years 2007–10
Table A4b.	IDA: Commitments by Top Borrowing Countries, Fiscal Years 2007–10
Table A5a.	IBRD: Disbursements by Top Borrowing Countries, Fiscal Years 2007–10
Table A5b.	IDA: Disbursements by Top Borrowing Countries, Fiscal Years 2007–10
Table A6a.	IBRD: Commitments by Sector, Fiscal Years 2007–10
Table A6b.	IDA: Commitments by Sector, Fiscal Years 2007–10
Table A7a.	IBRD: Disbursements by Sector, Fiscal Years 2007–10
Table A7b.	IDA: Disbursements by Sector, Fiscal Years 2007–10
Table A8a.	IBRD: Commitments by Lending Instrument Type, Fiscal Years 2007–10
Table A8b.	IDA: Commitments by Lending Instrument Type, Fiscal Years 2007–10
Table A9a.	IBRD: Disbursements by Lending Instrument Type, Fiscal Years 2007–10
Table A9b.	IDA: Disbursements by Lending Instrument Type, Fiscal Years 2007–10
Table A10a.	Crisis Severity and World Bank Response (Summary)
Table A10b.	World Bank Response in Most-Affected Countries
Table A10c.	World Bank Response in Moderately Affected Countries
Table A10d.	World Bank Response in Least-Affected Countries
Table A11a.	World Bank: ESW Delivered by Region, Fiscal Years 2007–10
Table A11b.	World Bank: ESW and Lending by Region, Fiscal Years 2009–10
Table A12a.	World Bank: ESW Delivered by Sector, Fiscal Years 2007–10
Table A12b.	World Bank: ESW and Lending by Sector, Fiscal Years 2009–10
Table A13.	World Bank: Bank Budget by Cost Category, Fiscal Years 2007–10
Table A14.	Selected Development Policy Operations Approved in Fiscal Years 2009–10 (Quality-at-Entry Assessment)

TABLE A1a World Bank: Total Commitments, Fiscal Years 2007–10

	$ Billion				Share in commitment (percent)			
	Fiscal year				Fiscal year			
	2007	2008	2009	2010	2007	2008	2009	2010
IBRD	12.8	13.5	32.9	44.2	52.0	55.0	70.0	75.2
IDA	11.9	11.2	14	14.5	48.0	45.0	30.0	24.8
World Bank	24.7	24.7	46.9	58.7	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

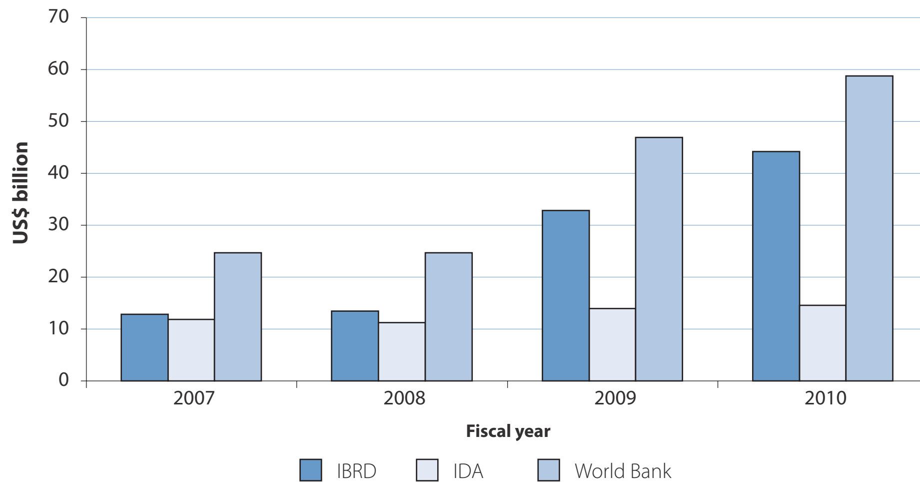


TABLE A1b World Bank: Total Disbursements, Fiscal Years 2007–10

	$ Billion				Share in disbursement (percent)			
	Fiscal year				Fiscal year			
	2007	2008	2009	2010	2007	2008	2009	2010
IBRD	11.1	10.5	18.6	28.9	56.0	53.0	67.0	71.7
IDA	8.6	9.2	9.2	11.5	44.0	47.0	33.0	28.5
World Bank	19.6	19.6	27.8	40.6	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

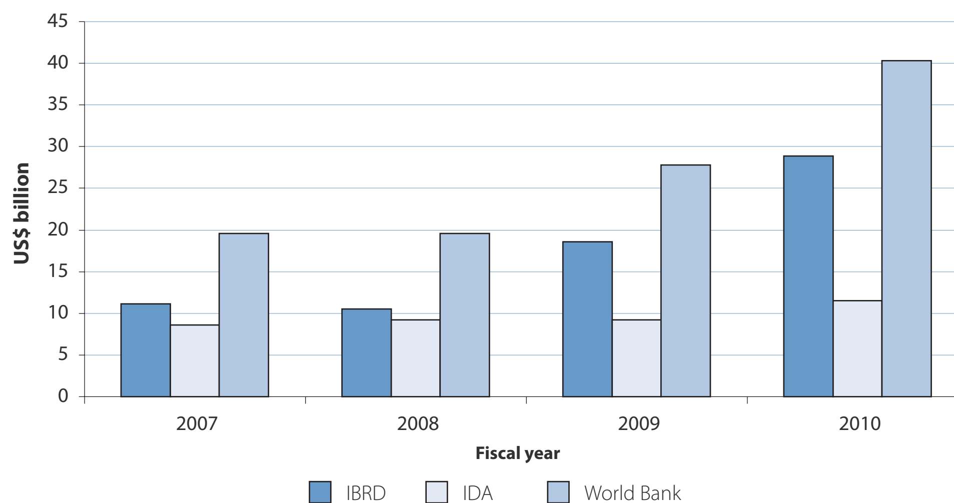


TABLE A2a IBRD: Commitments by Region, Fiscal Years 2007–10

Region	$ Billion				Share In IBRD commitment (percent)			
	Fiscal year				Fiscal year			
	2007	2008	2009	2010	2007	2008	2009	2010
Sub-Saharan Africa	0	0	0.4	4.3	0	0	1	10
East Asia and the Pacific	2.8	2.7	6.9	5.9	22	20	21	13
Europe and Central Asia	3.3	3.7	9	10.2	26	28	27	23
Latin America and the Caribbean	4.4	4.4	13.8	13.7	34	32	42	31
Middle East and North Africa	0.7	1.2	1.6	3.5	5	9	5	8
South Asia	1.6	1.5	1.3	6.7	12	11	4	15
Total	12.8	13.5	32.9	44.2	100	100	100	100

Source: World Bank data, July 2010.

TABLE A2b IDA: Commitments by Region, Fiscal Years 2007–10

Region	$ Billion				Share In IDA commitment (percent)			
	Fiscal year				Fiscal year			
	2007	2008	2009	2010	2007	2008	2009	2010
Sub-Saharan Africa	5.8	5.7	7.8	7.2	49	50	56	49
East Asia and the Pacific	1.2	1.8	1.2	1.7	10	16	9	11
Europe and Central Asia	0.4	0.5	0.4	0.6	4	4	3	4
Latin America and the Caribbean	0.2	0.3	0.2	0.2	2	3	1	2
Middle East and North Africa	0.2	0.3	0.2	0.2	2	2	1	1
South Asia	4	2.8	4.1	4.6	34	25	30	32
Total	11.9	11.2	14	14.5	100	100	100	100

Source: World Bank data, July 2010.

TABLE A3a	IBRD: Disbursements by Region, Fiscal Years 2007–10							
	$ Billion				Share In IBRD disbursement (percent)			
	Fiscal year				Fiscal year			
Region	2007	2008	2009	2010	2007	2008	2009	2010
Sub-Saharan Africa	0	0	0.1	0.0	0.0	0.0	1.0	0.1
East Asia and the Pacific	2.4	2.4	3.3	4.1	21.0	23.0	18.0	14.1
Europe and Central Asia	2.5	2.7	4.9	7.6	22.0	26.0	26.0	26.4
Latin America and the Caribbean	3.5	3.2	7.9	11.6	32.0	31.0	42.0	40.1
Middle East and North Africa	1.5	1	1.2	2.1	13.0	9.0	7.0	7.3
South Asia	1.2	1.2	1.2	3.5	11.0	11.0	6.0	12.0
Total	11.1	10.5	18.6	28.9	100	100	100	100

Source: World Bank data, July 2010.

TABLE A3b	IDA: Disbursements by Region, Fiscal Years 2007–10							
	$ Billion				Share In IDA disbursement (percent)			
	Fiscal year				Fiscal year			
Region	2007	2008	2009	2010	2007	2008	2009	2010
Sub-Saharan Africa	3.9	4.8	4.3	5.9	45.0	53.0	47.0	51.4
East Asia and the Pacific	0.9	1.1	1.3	1.6	10.0	12.0	14.0	14.1
Europe and Central Asia	0.5	0.5	0.5	0.5	6.0	6.0	5.0	4.7
Latin America and the Caribbean	0.2	0.2	0.2	0.2	2.0	2.0	2.0	1.9
Middle East and North Africa	0.2	0.1	0.2	0.2	2.0	1.0	2.0	1.6
South Asia	3	2.4	2.8	3.0	35.0	26.0	30.0	26.3
Total	8.6	9.2	9.2	11.5	100	100	100	100

Source: World Bank data, July 2010.

TABLE A4a IBRD: Commitments by Top Borrowing Countires, Fiscal Years 2007–10

Region	Country	$ Billion Fiscal year 2007	2008	2009	2010	Share in IBRD commitment (percent) Fiscal year 2007	2008	2009	2010
East Asia and the Pacific	Indonesia	0.8	0.9	4.2	3.0	6	6.8	12.8	6.8
	China	1.6	1.5	2.4	1.4	12.8	11.2	7.2	3.2
Europe and Central Asia	Turkey	1.2	1.2	2.1	3.0	9	8.9	6.3	6.8
	Poland	0.2	0	2.6	1.3	1.4	0	7.7	3.0
	Ukraine	0.2	0.7	0.9	0.5	1.2	5.1	2.7	1.0
	Kazakhstan	0	0.1	2.1	1.1	0.2	1.1	6.5	2.4
	Hungary	0	0	0	1.4	0	0	0	3.2
Latin America and the Caribbean	Mexico	0	0.7	3.4	6.4	0.2	5.5	10.4	14.4
	Brazil	0.3	1.9	3.6	3.7	2.2	14.2	11	8.5
	Colombia	1.1	0.9	1.3	1.2	8.6	7	3.9	2.7
	Argentina	1.7	0.1	1.8	0.6	13.6	0.8	5.6	1.4
	Peru	0.4	0	1.4	0.4	3.3	0	4.2	0.8
South Asia	India	1.5	1.3	1.3	6.7	11.7	9.8	3.9	15.1
13-country total		9	9.5	27	30.6	70.3	70.5	82.2	69.3
IBRD total		12.8	13.5	32.9	44.2	100	100	100	100.0

Source: World Bank data, July 2010.

TABLE A4b IDA: Commitments by Top Borrowing Countires, Fiscal Years 2007–10

Region	Country	$ Billion Fiscal year 2007	2008	2009	2010	Share in IDA commitment (percent) Fiscal year 2007	2008	2009	2010
Sub-Saharan Africa	Ethiopia	0.6	0.7	1.1	0.9	5.5	6.3	8.2	6.1
	Tanzania	0.4	0.5	0.6	0.9	3.6	4.4	4.4	6.4
	Nigeria	0.8	0.4	1.8	0.9	6.3	3.5	12.6	6.1
	Congo, Dem. Rep. of	0.3	0.2	0.4	0.5	2.8	2.0	2.5	3.2
	Uganda	0.5	0.3	0.3	0.4	4.5	2.8	2.5	3.0
	Ghana	0.2	0.3	0.6	0.3	1.7	2.7	3.9	2.2
	Kenya	0.4	0.2	0.5	0.6	3.3	1.3	3.3	4.1
	Africa, regional projects	0.7	0.5	0.6	0.7	5.9	4.6	4.3	4.8
East Asia and the Pacific	Vietnam	0.7	1.2	1.1	1.4	6.0	10.6	8.2	9.8
South Asia	India	2.3	0.8	1	2.6	18.9	7.5	6.8	17.7
	Pakistan	0.9	0.4	1.6	0.3	7.4	3.3	11.5	2.1
	Bangladesh	0.4	0.8	1.1	0.8	3.2	6.7	7.8	5.7
	Sri Lanka	0.1	0.1	0.1	0.4	0.6	1.3	0.9	2.5
13-country total		8.3	6.4	10.8	10.7	69.9	57.0	77.0	73.6
IDA total		11.9	11.2	14	14.5	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

TABLE A5a	IBRD: Disbursements by Top Borrowing Countries, Fiscal Years 2007–10								
		$ Billion				Share in IBRD disbursement (percent)			
		Fiscal year				Fiscal year			
Region	Country	2007	2008	2009	2010	2007	2008	2009	2010
East Asia and the Pacific	Indonesia	0.7	0.9	1.3	2.1	6.3	8.8	7.2	7.1
	China	1.3	1.3	1.6	1.3	11.4	12.2	8.5	4.5
Europe and Central Asia	Turkey	1.3	1.3	1.7	3.0	12	11.9	9	10.3
	Poland	0.2	0	1.4	1.5	1.5	0.3	7.8	5.0
	Ukraine	0.1	0.4	0.6	0.5	0.9	3.9	3.3	1.7
	Kazakhstan	0	0.1	0.1	0.2	0.4	0.5	0.4	0.6
	Hungary	0	0	0	0	0	0	0	0.0
Latin America and the Caribbean	Mexico	0.8	0.6	2.5	4.6	7.5	6.1	13.5	16.0
	Brazil	0.8	0.7	1.8	2.6	7.5	7.1	9.6	9.1
	Colombia	0.8	0.6	1.2	1.6	7.5	6.1	6.7	5.5
	Argentina	0.5	0.4	0.8	0.9	4.1	3.4	4.1	3.0
	Peru	0	0.3	0.3	0.5	0.3	2.5	1.6	1.6
South Asia	India	1.1	1.1	1.1	3.4	9.5	10.7	6	11.7
13- country total		7.6	7.7	14.4	22.0	68.9	73.6	77.8	76.2
IBRD total		11.1	10.5	18.6	28.9	100	100	100	100.0

Source: World Bank data, July 2010.

TABLE A5b	IDA: Disbursements by Top Borrowing Countires, Fiscal Years 2007–10								
		$ Billion				Share in IDA commitment (percent)			
		Fiscal year				Fiscal year			
Region	Country	2007	2008	2009	2010	2007	2008	2009	2010
Sub-Saharan Africa	Ethiopia	0.4	0.4	0.9	0.7	4.2	4.8	9.9	6.2
	Tanzania	0.4	0.5	0.4	0.8	4.8	5.5	4.6	7.0
	Nigeria	0.4	0.3	0.3	1.1	4.2	3.6	3.8	9.5
	Congo, Dem. Rep. of	0.2	0.3	0.3	0.3	2.4	3.1	3.4	2.4
	Uganda	0.4	0.2	0.3	0.3	4.4	1.7	3.3	2.9
	Ghana	0.2	0.2	0.1	0.4	2.6	2.4	1.4	3.4
	Kenya	0.1	0.2	0.1	0.2	0.7	1.8	1.6	1.8
	Africa, regional projects	0.1	0.1	0.1	0.3	1.2	1	1.3	2.8
East Asia and the Pacific	Vietnam	0.5	0.6	0.7	1.2	5.7	7.1	7.4	10.7
South Asia	India	0.9	0.8	1.1	1.3	10.8	9.2	11.4	11.2
	Pakistan	1	0.3	0.8	0.7	12.1	2.9	9.2	6.1
	Bangladesh	0.6	0.7	0.4	0.4	7.3	8	4.1	3.3
	Sri Lanka	0.2	0.1	1.1	0.2	1.8	1.3	1.2	1.9
13-country total		5.4	4.8	5.8	7.9	62.3	52.5	62.7	69.1
IDA total		8.6	9.2	9.2	11.5	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

TABLE A6a IBRD: Commitments by Sector, Fiscal Years 2007–10

	$ Billion				Share in IBRD commitment (percent)			
	Fiscal year				Fiscal year			
Sector Board	2007	2008	2009	2010	2007	2008	2009	2010
Agriculture and Rural Development	1.5	0.4	1	1.5	12.0	3.0	3.0	3.4
Economic Policy	1.3	1.7	7.3	8.7	10.0	13.0	22.0	19.8
Environment	0.3	0.6	3.7	0.3	2.0	4.0	11.0	0.7
Financial and Private Sector Development	1.5	1.7	2.6	8.6	12.0	12.0	8.0	19.5
Infrastructure[a]	6	6.7	10.1	17.3	47.0	49.0	31.0	39.1
Public Sector Development	0.2	1.5	1.6	0.8	1.0	11.0	5.0	1.9
Social	2.1	1	6.7	6.9	17.0	7.0	20.0	15.6
Total	12.8	13.5	32.9	44.2	100.0	100.0	100.0	100.0

Source: World Bank data, April 2010.

Note: Infrastructure includes Energy and Mining, Global Information and Communications Technologies, Transport, Urban and Water; Public Sector Development includes Financial Management, Procurement and Public Sector Governance; Social includes Education, Gender, Health Nutrition, and Population, Poverty Reduction, Social Development and Social Protection.

TABLE A6b IDA: Commitments by Sector, Fiscal Years 2007–10

	$ Billion				Share in IDA commitment (percent)			
	Fiscal year				Fiscal year			
Sector Board	2007	2008	2009	2010	2007	2008	2009	2010
Agriculture and Rural Development	1.6	1.7	2.6	1.7	13.0	15.0	18.0	11.9
Economic Policy	0.6	1.9	1.7	1.0	5.0	17.0	12.0	6.5
Environment	0	0.1	0.2	0.3	0.0	1.0	1.0	1.9
Financial and Private Sector Development	0.4	0.2	0.3	1.0	3.0	2.0	2.0	7.2
Infrastructure[a]	4.2	4.3	4.4	5.8	36.0	38.0	32.0	40.0
Public Sector Development	0.5	0.6	0.8	0.6	4.0	6.0	5.0	3.8
Social	4.5	2.4	4	4.2	38.0	21.0	29.0	28.7
Total	11.9	11.2	14	14.5	100.0	100.0	100.0	100.0

Source: World Bank data, April 2010.

Note: Infrastructure includes Energy and Mining, Global Information and Communications Technologies, Transport, Urban and Water; Public Sector Development includes Financial Management, Procurement and Public Sector Governance; Social includes Education, Gender, Health Nutrition, and Population, Poverty Reduction, Social Development and Social Protection.

TABLE A7a IBRD: Disbursements by Sector, Fiscal Years 2007–10

Sector Board	$ Billion				Share in IBRD disbursement (percent)			
	Fiscal year				Fiscal year			
	2007	2008	2009	2010	2007	2008	2009	2010
Agriculture and Rural Development	1.0	0.9	0.7	0.7	8.8	8.9	3.6	2.5
Economic Policy	1.2	1.7	4.1	6.7	11.2	16.4	22.2	23.3
Environment	0.1	0.3	1.8	1.0	0.9	3.1	9.8	3.3
Financial and Private Sector Development	1.6	1.2	3.3	4.6	14.2	11.1	17.6	15.9
Infrastructure[a]	3.8	4.5	4.7	8.2	34.5	42.9	25.5	28.5
Public Sector Development	0.3	0.4	1.5	1.1	2.4	3.8	7.8	3.8
Social	3.1	1.4	2.5	6.6	28.0	13.7	13.5	22.7
Total	11.1	10.5	18.6	28.9	100.0	100.0	100.0	100.0

Source: World Bank data, April 2010.

Note: Infrastructure includes Energy and Mining, Global Information and Communications Technologies, Transport, Urban and Water; Public Sector Development includes Financial Management, Procurement and Public Sector Governance; Social includes Education, Gender, Health Nutrition, and Population, Poverty Reduction, Social Development and Social Protection.

TABLE A7b IDA: Disbursements by Sector, Fiscal Years 2007–10

Sector Board	$ Billion				Share in IDA disbursement (percent)			
	Fiscal year				Fiscal year			
	2007	2008	2009	2010	2007	2008	2009	2010
Agriculture and Rural Development	1.1	1.1	1.3	1.6	13.0	12.2	13.7	13.6
Economic Policy	0.6	1.7	1.3	1.2	6.7	18.5	14.2	10.3
Environment	0.1	0.1	0.1	0.1	0.9	0.9	1.1	0.9
Financial and Private Sector Development	0.4	0.5	0.6	1.0	4.3	5.2	6.5	8.7
Infrastructure[a]	2.4	2.7	2.8	3.0	27.8	29.0	30.3	26.5
Public Sector Development	0.7	0.5	0.6	1.0	7.9	5.8	6.5	9.2
Social	3.4	2.6	2.5	3.5	39.3	28.5	27.6	30.7
Total	8.6	9.2	9.2	11.4	100.0	100.0	100.0	100.0

Source: World Bank data, April 2010.

Note: The above table does not include disbursements related to the HIPC initiative for Côte d'Ivoire. Disbursements were 16 and 27 million for fiscal 2009 and 2010, respectively. Infrastructure includes Energy and Mining, Global Information and Communications Technologies, Transport, Urban and Water; Public Sector Development includes Financial Management, Procurement and Public Sector Governance; Social includes Education, Gender, Health Nutrition, and Population, Poverty Reduction, Social Development and Social Protection.

TABLE A8a IBRD: Commitments by Lending Instrument Type, Fiscal Years 2007–10

	$ Billion				Share in IBRD commitment (percent)			
	Fiscal year				Fiscal year			
Instrument type	2007	2008	2009	2010	2007	2008	2009	2010
Development policy lending	3.6	4.0	15.5	20.6	28.3	29.5	47.2	46.6
Investment lending	9.2	9.5	17.4	23.6	71.7	70.5	52.8	53.4
Total	12.8	13.5	32.9	44.2	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

TABLE A8b IDA: Commitments by Lending Instrument Type, Fiscal Years 2007–10

	$ Billion				Share in IDA commitment (percent)			
	Fiscal year				Fiscal year			
Instrument type	2007	2008	2009	2010	2007	2008	2009	2010
Development policy lending	2.6	2.7	2.8	2.4	22.2	23.8	20.2	16.3
Investment lending	9.2	8.6	11.2	12.2	77.8	76.2	79.8	83.7
Total	11.9	11.2	14.0	14.5	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

TABLE A9a IBRD: Disbursements by Lending Instrument Type, Fiscal Years 2007–10

	$ Billion				Share in IBRD disbursement (percent)			
	Fiscal year				Fiscal year			
Instrument type	2007	2008	2009	2010	2007	2008	2009	2010
Development policy lending	4.1	3.5	9.1	17.4	37.0	33.2	49.2	60.4
Investment lending	7.0	7.0	9.4	11.4	63.0	66.8	50.8	39.6
Total	11.1	10.5	18.6	28.9	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

TABLE A9b IDA: Disbursements by Lending Instrument Type, Fiscal Years 2007–10

	$ Billion				Share in IDA disbursement (percent)			
	Fiscal year				Fiscal year			
Instrument type	2007	2008	2009	2010	2007	2008	2009	2010
Development policy lending	2.4	2.8	1.9	3.2	28.0	30.7	20.3	28.2
Investment lending	6.2	6.3	7.3	8.2	72.0	69.3	79.7	71.6
Total	8.6	9.2	9.2	11.5	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

Note: The above table does not include disbursements related to the HIPC initiative for Côte d'Ivoire. Disbursements were 16 and 27 million for fiscal 2009 and 2010, respectively.

TABLE A10a Crisis Severity and World Bank Response (Summary)

World Bank commitments	Pre-crisis average (fiscal 2007–08, $ billion)	Crisis average (fiscal 2009–10, $ billion)	Change (%)
Most-affected countries	5.2	14.5	178.8
Moderately affected countries	11.2	24.2	116.1
Least-affected countries	8.3	14.1	69.9
World Bank	24.7	52.8	113.8
Total disbursement	**Pre-crisis average (fiscal 2007–08)**	**Crisis average (fiscal 2009–10)**	**Change (%)**
Most-affected countries	4.4	10.2	131.8
Moderately affected countries	7.9	14.5	83.5
Least-affected countries	7.0	9.2	31.4
World Bank	19.4	33.9	74.7

TABLE A10b World Bank Response in Most-Affected Countries

Region	Country	Growth rate[a]		
		Pre-crisis average, fiscal 2006–07	Crisis average, fiscal 2008–09	Growth rate change
Sub-Saharan Africa	Botswana	4.96	–1.44	–6.40
	Angola	19.42	6.38	–13.04
	Seychelles	9.92	–4.22	–14.13
East Asia and the Pacific	Mongolia	9.39	3.66	–5.73
	Cambodia	10.49	2.11	–8.38
	Solomon Islands	8.80	2.55	–6.25
Europe and Central Asia	Turkey	5.78	–2.04	–7.82
	Kazakhstan	9.80	2.18	–7.62
	Hungary	2.47	–2.84	–5.31
	Ukraine	7.60	–6.50	–14.10
	Croatia	5.11	–1.73	–6.83
	Bulgaria	6.24	0.49	–5.75
	Georgia	10.86	–0.84	–11.70
	Latvia	11.11	–11.28	–22.39
	Romania	7.10	0.11	–6.99
	Armenia	13.47	–3.82	–17.29
	Azerbaijan	29.75	10.05	–19.70
	Bosnia and Herzegovina	6.38	1.04	–5.34
	Montenegro	9.65	–0.07	–9.72
	Russian Federation	7.87	–1.14	–9.01
Latin America and the Caribbean	Mexico	4.14	–2.52	–6.66
	Colombia	7.24	1.27	–5.98
	Costa Rica	8.36	0.87	–7.49
	Dominican Republic	9.57	4.37	–5.21
	Honduras	6.43	1.05	–5.38
	Barbados	3.31	–2.56	–5.87
	St. Lucia	3.14	–2.24	–5.38
South Asia	Bhutan	13.03	5.66	–7.37
	Maldives	12.61	1.61	–11.00
Total: Most-affected countries				

Note: Most-affected countries are those with a decline in growth rate of more than 5 percentage points

a. IMF World Economic Outlook database, April 2010.

b. World Bank data, July 2010.

IBRD/IDA commitments[b]				IBRD/IDA disbursements[b]			
Pre-crisis average, fiscal 2007–08	Crisis average fiscal 2009–10	Change in commitment amount	Share of country in commitment increase (%)	Pre-crisis average fiscal 2007–08	Crisis average fiscal 2009–10	Change in disbursement amount	Share of country in disbursement increase (%)
0	308	308	3.3	0	1	1	0.0
51	120	69	0.7	34	24	−10	−0.2
0	5	5	0.0	0	5	5	0.1
26	38	12	0.1	21	46	26	0.4
74	13	−61	−0.7	33	45	12	0.2
2	5	3	0.0	0	1	1	0.0
1,181	2,533	1,352	14.5	1,291	2,326	1,034	17.8
87	1,595	1,508	16.2	51	122	71	1.2
0	707	707	7.6	1	4	3	0.0
422	680	258	2.8	254	559	305	5.3
261	356	95	1.0	163	294	131	2.3
172	264	92	1.0	123	207	84	1.5
66	230	164	1.8	83	191	108	1.9
0	213	213	2.3	0	148	148	2.6
241	211	−30	−0.3	214	461	247	4.3
61	139	78	0.8	84	130	46	0.8
763	212	−551	−5.9	71	158	87	1.5
32	136	103	1.1	43	36	−7	−0.1
10	24	15	0.2	12	9	−3	−0.1
130	0	−130	−1.4	268	142	−126	−2.2
383	4,896	4,512	48.5	733	3,569	2,835	48.9
1,021	1,224	203	2.2	734	1,416	682	11.8
36	283	246	2.6	3	21	19	0.3
71	194	123	1.3	72	187	115	2.0
66	53	−14	−0.2	52	41	−11	−0.2
0	18	18	0.2	2	3	1	0.0
3	8	5	0.1	11	3	−8	−0.1
17	16	0	0.0	19	21	2	0.0
10	9	−2	0.0	5	11	6	0.1
5,186	14,486	9,300	100.0	4,378	10,181	5,803	100.0

TABLE A10c World Bank Response in Moderately Affected Countries

Region	Country	Growth rate[a]		
		Pre-crisis average, fiscal 2006–07	Crisis average, 2008–09	Growth rate change
Sub-Saharan Africa	Africa, regional projects	6.69	3.83	−2.87
	Kenya	6.66	1.81	−4.86
	Liberia	8.61	5.86	−2.76
	Madagascar	5.63	1.02	−4.61
	Sierra Leone	6.86	4.77	−2.09
	Cape Verde	9.30	4.99	−4.31
	Namibia	6.29	1.30	−4.99
	Mauritania	6.23	1.30	−4.93
	Eritrea	0.23	−3.09	−3.32
	South Africa	5.55	0.95	−4.60
East Asia and the Pacific	China	12.31	9.14	−3.17
	Vietnam	8.34	5.75	−2.59
	Philippines	6.21	2.38	−3.83
	Thailand	5.04	0.09	−4.95
	Samoa	2.21	0.03	−2.18
Europe and Central Asia	Poland	6.51	3.35	−3.15
	Serbia	6.06	1.33	−4.73
	Belarus	9.32	5.11	−4.21
	Macedonia, FYR	4.90	2.05	−2.85
	Moldova	3.89	0.66	−3.24
Latin America and the Caribbean	Brazil	5.02	2.48	−2.55
	Argentina	8.56	3.80	−4.76
	Peru	8.32	5.33	−2.99
	Guatemala	5.84	1.91	−3.93
	El Salvador	4.27	−0.55	−4.83
	Jamaica	2.11	−1.88	−3.99
	Panama	10.32	6.56	−3.76
	Paraguay	5.55	0.64	−4.91
	Nicaragua	3.65	0.65	−3.00
	Chile	4.60	1.09	−3.51
	Grenada	1.30	−2.73	−4.03
	Dominica	3.64	1.45	−2.19
Middle East and North Africa	Jordan	8.44	5.25	−3.19
	Tunisia	5.85	3.80	−2.05
South Asia	India	9.59	6.51	−3.09
	Pakistan	5.89	2.00	−3.89
	Sri Lanka	7.23	4.73	−2.51
Total: Moderately affected countries				

Note: Moderately affected countries are those with a change in growth rate between −2 and −5 percentage points.

a. IMF World Economic Outlook database, April 2010.

b. World Bank data, July 2010.

	IBRD/IDA commitments[b]				IBRD/IDA disbursements[b]			
	Pre-crisis average, fiscal 2007–08	Crisis average, fiscal 2009–10	Change in commitment amount	Share of country in commitment increase (%)	Pre-crisis average, fiscal 2007–08	Crisis average, fiscal 2009–10	Change in disbursement amount	Share of country in disbursement increase (%)
	613	648	35	0.3	97	221	124	1.9
	273	528	255	2.0	116	174	58	0.9
	254	49	–205	–1.6	221	33	–188	–2.9
	161	35	–126	–1.0	204	89	–115	–1.8
	30	38	8	0.1	44	43	0	0.0
	12	15	3	0.0	22	17	–5	–0.1
	4	4	0	0.0	0	4	4	0.1
	12	15	4	0.0	62	22	–40	–0.6
	15	0	–15	–0.1	29	15	–15	–0.2
	0	1,875	1,875	14.4	1	5	3	0.1
	1,577	1,887	310	2.4	1,290	1,439	148	2.3
	952	1,639	687	5.3	570	1,204	635	9.7
	320	503	183	1.4	284	274	–10	–0.2
	0	40	40	0.3	4	9	5	0.1
	6	12	6	0.0	6	13	7	0.1
	92	1,941	1,849	14.2	96	1,448	1352	20.7
	117	326	209	1.6	44	154	111	1.7
	8	214	206	1.6	8	120	112	1.7
	100	46	–54	–0.4	40	59	19	0.3
	37	47	11	0.1	35	32	–3	0.0
	1,099	3,674	2,575	19.8	786	2,209	1422	21.7
	927	1,237	310	2.4	405	819	413	6.3
	210	868	658	5.1	153	386	233	3.6
	181	375	194	1.5	164	352	188	2.9
	0	350	350	2.7	34	130	96	1.5
	38	166	128	1.0	17	170	154	2.3
	121	148	27	0.2	86	111	25	0.4
	60	82	22	0.2	20	54	34	0.5
	50	62	13	0.1	40	57	18	0.3
	33	17	–17	–0.1	25	41	15	0.2
	1	6	6	0.0	5	2	–3	0.0
	1	0	–1	0.0	0	1	1	0.0
	66	222	155	1.2	40	191	150	2.3
	47	212	164	1.3	122	146	24	0.4
	2,952	5,752	2,800	21.6	1,972	3,411	1438	22.0
	765	955	190	1.5	759	862	103	1.6
	106	244	137	1.1	137	167	30	0.5
	11,237	24,227	12,989	100.0	7,940	14,484	6,544	100.0

TABLE A10d World Bank Response in Least-Affected Countries

Region	Country	Growth rate[a]		
		Pre-crisis average, fiscal 2006–07	Crisis average, fiscal 2008–09	Growth rate change
Sub-Saharan Africa	Nigeria	6.59	5.81	–0.78
	Ethiopia	11.67	10.56	–1.10
	Tanzania	6.94	6.45	–0.50
	Ghana	6.05	5.39	–0.66
	Uganda	9.60	7.89	–1.71
	Congo, Dem. Rep. of	5.92	4.45	–1.47
	Mozambique	6.80	6.54	–0.27
	Burkina Faso	4.53	4.20	–0.33
	Rwanda	7.04	7.67	0.63
	Mauritius	4.64	2.84	–1.80
	Senegal	3.61	1.94	–1.67
	Mali	5.15	4.69	–0.47
	Côte d'Ivoire	1.16	3.04	1.88
	Burundi	4.35	4.00	–0.35
	Niger	4.63	4.21	–0.41
	Benin	4.20	3.86	–0.34
	Zambia	6.21	5.98	–0.23
	Cameroon	3.24	2.42	–0.82
	Malawi	7.40	8.69	1.29
	Togo	2.95	2.12	–0.83
	Lesotho	4.47	2.95	–1.52
	Congo, Rep. of	2.33	6.57	4.24
	Central African Republic	3.75	1.85	–1.90
	Guinea-Bissau	1.27	3.24	1.97
	Guinea	2.13	2.33	0.20
	Gambia, The	6.43	5.34	–1.09
	São Tomé and Principe	6.34	4.90	–1.44
	Chad	0.17	–1.01	–1.18
	Comoros	0.87	1.06	0.19
East Asia and the Pacific	Indonesia	5.92	5.28	–0.65
	Lao PDR	8.24	7.69	–0.56
	Tonga	0.05	0.15	0.10
	Papua New Guinea	4.72	5.60	0.87
Europe and Central Asia	Uzbekistan	8.40	8.55	0.15
	Albania	5.72	5.32	–0.40
	Kyrgyz Republic	5.80	5.35	–0.45
	Tajikistan	7.40	5.65	–1.75
	Kosovo	3.92	4.70	0.79

IBRD/IDA commitments[b]				IBRD/IDA disbursements[b]			
Pre-crisis average, fiscal 2007–08	Crisis average, fiscal 2009–10	Change in commitment amount	Share of country in commitment increase (%)	Pre-crisis average, fiscal 2007–08	Crisis average, fiscal 2009–10	Change in disbursement amount	Share of country in disbursement increase (%)
570	1,325	755	12.9	342	719	377	17.6
683	1,018	334	5.7	399	815	416	19.4
465	774	309	5.3	460	614	153	7.2
256	432	176	3.0	224	260	36	1.7
425	393	–33	–0.6	267	317	50	2.3
276	407	131	2.2	245	299	55	2.6
145	210	65	1.1	235	201	–34	–1.6
124	205	81	1.4	162	195	34	1.6
96	160	64	1.1	124	128	4	0.2
30	119	89	1.5	31	55	24	1.1
113	182	70	1.2	124	112	–13	–0.6
124	183	60	1.0	129	104	–25	–1.1
278	178	–100	–1.7	159	197	38	1.8
100	101	1	0.0	86	77	–8	–0.4
67	60	–7	–0.1	87	50	–37	–1.7
89	84	–5	–0.1	74	67	–7	–0.3
46	53	7	0.1	63	41	–22	–1.0
102	65	–37	–0.6	43	33	–10	–0.5
86	94	8	0.1	61	100	39	1.8
96	41	–55	–0.9	82	18	–64	–3.0
24	28	4	0.1	14	23	9	0.4
38	23	–15	–0.3	16	15	0	0.0
54	11	–43	–0.7	45	18	–26	–1.2
5	10	5	0.1	13	12	–1	0.0
16	5	–11	–0.2	31	9	–22	–1.0
8	9	1	0.0	9	12	3	0.2
3	2	–1	0.0	3	5	2	0.1
13	10	–3	0.0	21	15	–6	–0.3
3	4	2	0.0	4	2	–2	–0.1
1,227	3,606	2,379	40.8	1,084	2,013	929	43.4
27	75	48	0.8	55	38	–16	–0.8
0	3	3	0.0	3	2	–1	–0.1
41	13	–28	–0.5	11	13	2	0.1
41	87	45	0.8	35	31	–4	–0.2
72	42	–30	–0.5	50	40	–9	–0.4
34	35	2	0.0	49	32	–17	–0.8
26	42	17	0.3	33	40	7	0.3
15	10	–5	–0.1	7	7	0	0.0

(Table continues on the following page.)

TABLE A10d World Bank Response in Least-Affected Countries (*continued*)

Region	Country	Growth rate[a]		
		Pre-crisis average, fiscal 2006–07	Crisis average, fiscal 2008–09	Growth rate change
Latin America and the Caribbean	Uruguay	5.89	5.70	−0.20
	Haiti	2.75	1.85	−0.90
	Bolivia	4.68	4.72	0.04
	Ecuador	3.40	3.80	0.41
Middle East and North Africa	Egypt, Arab Rep. of	6.97	5.92	−1.04
	Morocco	5.23	5.39	0.16
	Yemen, Republic of	3.25	3.76	0.50
	Iraq	3.85	6.86	3.01
	Lebanon	4.04	9.00	4.96
	Djibouti	4.95	5.40	0.45
South Asia	Bangladesh	6.42	5.73	−0.68
	Nepal	3.35	5.01	1.65
	Afghanistan	11.21	12.95	1.74
Total: Least-affected countries				

Note: Least-affected countries are those with a change in growth rate greater than −2 percentage points.

a. IMF World Economic Outlook database, April 2010.

b. World Bank data, July 2010.

TABLE A11a World Bank: ESW Delivered by Region, Fiscal Years 2007–10

Region	2007	2008	2009	2010
	Number of pieces of ESW delivered			
Sub-Saharan Africa	110	124	115	115
East Asia and the Pacific	87	62	68	88
Europe and Central Asia	108	89	75	81
Latin America and the Caribbean	66	60	31	49
Middle East and North Africa	55	48	42	48
South Asia	64	50	47	37
Other[a]	37	49	54	61
Total	527	482	432	479
	Share of total (percent)			
Sub-Saharan Africa	20.9	25.7	26.6	24.0
East Asia and the Pacific	16.5	12.9	15.7	18.4
Europe and Central Asia	20.5	18.5	17.4	16.9
Latin America and the Caribbean	12.5	12.4	7.2	10.2
Middle East and North Africa	10.4	10.0	9.7	10.0
South Asia	12.1	10.4	10.9	7.7
Other[a]	7.0	10.2	12.5	12.7
Total	100.0	100.0	100.0	100.0

Source: World Bank data as of July 2010.

a. Other = non-Regional ESW.

IBRD/IDA commitments[b]				IBRD/IDA disbursements[b]			
Pre-crisis average, fiscal 2007–08	Crisis average, fiscal 2009–10	Change in commitment amount	Share of country in commitment increase (%)	Pre-crisis average, fiscal 2007–08	Crisis average, fiscal 2009–10	Change in disbursement amount	Share of country in disbursement increase (%)
110	215	105	1.8	106	248	142	6.6
49	81	32	0.5	22	51	29	1.3
74	15	–59	–1.0	19	32	13	0.6
63	0	–63	–1.1	9	1	–8	–0.4
509	1,513	1,004	17.2	456	743	288	13.4
275	431	156	2.7	304	292	–12	–0.6
102	185	83	1.4	130	127	–3	–0.1
137	125	–12	–0.2	0	169	169	7.9
50	35	–15	–0.3	99	25	–74	–3.4
3	8	5	0.1	11	7	–4	–0.2
566	962	396	6.8	680	375	–305	–14.2
241	246	5	0.1	78	152	74	3.4
281	198	–83	–1.4	254	236	–17	–0.8
8,273	14,107	5,834	103	7,047	9,189	2,141	100

TABLE A11b World Bank: ESW and Lending by Region, Fiscal Years 2009–10

	ESW		Lending		
Region	Number of pieces of ESW delivered	Bank budget cost ($ millions)	Number of approved projects	Commitments ($ millions)	Disbursements ($ millions)
Sub-Saharan Africa	230	39	218	19,640	10,357
East Asia and the Pacific	156	19	102	15,669	10,203
Europe and Central Asia	156	29	110	20,179	13,526
Latin America and the Caribbean	80	18	147	27,938	19,843
Middle East and North Africa	90	19	44	5,460	3,706
South Asia	84	16	93	16,763	10,469
Other[a]	115	21			
Total	911	162	714	105,649	68,106
Share of total (percent)					
Sub-Saharan Africa	25.2	24.2	30.5	18.6	15.2
East Asia and the Pacific	17.1	12.0	14.3	14.8	15.0
Europe and Central Asia	17.1	18.1	15.4	19.1	19.9
Latin America and the Caribbean	8.8	11.2	20.6	26.4	29.1
Middle East and North Africa	9.9	11.7	6.2	5.2	5.4
South Asia	9.2	9.8	13.0	15.9	15.4
Other[a]	12.6	13.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

Source: World Bank data, July 2010.

a. Other = non-Regional ESW.

TABLE A12a World Bank: ESW Delivered by Sector, Fiscal Years 2007–10

	2007	2008	2009	2010
Sector	Number of pieces of ESW delivered			
Agriculture and Rural Development	35	34	28	22
Economic Policy	90	86	77	112
Social	138	113	92	100
Infrastructure	81	58	60	60
Environment	23	22	16	24
Financial and Private Sector Development	85	104	102	92
Public Sector Development	74	64	57	67
Operational Services/Not Applicable	1	1		2
Total	527	482	432	479
	Share of total (percent)			
Agriculture and rural development	6.6	7.1	6.5	4.6
Economic Policy	17.1	17.8	17.8	23
Social	26.2	23.4	21.3	21
Infrastructure	15.4	12.0	13.9	13
Environment	4.4	4.6	3.7	5
Financial and Private Sector Development	16.1	21.6	23.6	19
Public Sector Development	14.0	13.3	13.2	14
Operational Services/Not Applicable	0.2	0.2	0.0	0
Total	100.0	100.0	100.0	100.0

Source: World Bank data as of July 2010.

Note: Infrastructure includes Energy and Mining, Global Information and Communications Technologies, Transport, Urban and Water; Public Sector Development includes Financial Management, Procurement and Public Sector Governance; Social includes Education, Gender, Health Nutrition, and Population, Poverty Reduction, Social Development and Social Protection.

TABLE A12b	World Bank: ESW and Lending by Sector, Fiscal Years 2009–10				
	ESW		Lending		
Sector	Number of pieces of ESW delivered	Bank budget cost ($ millions)	Number of approved projects	Commitments ($ millions)	Disbursements ($ millions)
Agriculture and Rural Development	50	10	104	6,823	4,231
Economic Policy	189	37	82	18,625	13,333
Environment	40	8	18	4,402	2,985
Financial and Private Sector Development	194	37	50	12,600	9,443
Infrastructure	120	16	252	37,625	18,763
Public Sector Development	124	21	30	3,748	4,193
Social	192	34	178	21,825	15,116
Operational Services/Not applicable[a]	2	0			43
Total	626	162	714	105,649	57,202
	Share of total (percent)				
Agriculture and Rural Development	5.5	6.0	14.6	6.5	6.2
Economic Policy	20.7	22.8	11.5	17.6	19.6
Environment	4.4	4.7	2.5	4.2	4.4
Financial and Private Sector Development	21.3	22.6	7.0	11.9	13.9
Infrastructure	13.2	10.2	35.3	35.6	27.6
Public Sector Development	13.6	12.8	4.2	3.5	6.2
Social	21.1	20.9	24.9	20.7	22.2
Operational Services/Not applicable	0.2	0.1	0.0	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0

Source: World Bank data as of July 2010.

Note: Infrastructure includes Energy and Mining, Global Information and Communications Technologies, Transport, Urban and Water; Public Sector Development includes Financial Management, Procurement and Public Sector Governance; Social includes Education, Gender, Health Nutrition, and Population, Poverty Reduction, Social Development and Social Protection..

a. Include disbursements related to the HIPC initiative for Côte d'Ivoire. Disbursements were 16 and 17 million for fiscal 2009 and 2010, respectively.

TABLE A13 World Bank: Bank Budget by Cost Category, Fiscal Years 2007–10

Fiscal year	Supervision	Lending	AAA	Other	Country services
	$ Millions				
2000	159	124	108	65	456
2001	136	103	89	75	402
2002	152	123	133	85	493
2003	160	120	155	91	526
2004	167	156	160	106	589
2005	178	150	161	100	590
2006	190	155	171	104	619
2007	199	149	164	105	616
2008	217	148	187	105	658
2009	230	152	198	105	685
2010	252	157	207	110	725
	Share of total (percent)				
2000	34.8	27.3	23.6	14.2	100.0
2001	33.9	25.5	22.1	18.5	100.0
2002	30.9	25.0	26.9	17.2	100.0
2003	30.5	22.9	29.4	17.3	100.0
2004	28.4	26.5	27.1	18.0	100.0
2005	30.2	25.5	27.4	17.0	100.0
2006	30.7	25.0	27.6	16.7	100.0
2007	32.2	24.2	26.5	17.0	100.0
2008	33.0	22.5	28.5	16.0	100.0
2009	33.6	22.1	28.9	15.4	100.0
2010	34.7	21.6	28.5	15.2	100.0

Source: World Bank data as of July 2010.

TABLE A14 World Bank: Bank Budget by Cost Category, Fiscal Years 2007–10

Country/amount	DPO	Commitments ($ millions)	Disbursements ($ millions)	Percent disbursed
Bangladesh (130 million)	Food Crisis DSC; Project ID: P112761; Approval Date: 10/28/08; Comm. Amt: 130m	130.0	123.6	95
Brazil (3,081 million)	1st Prog. DPL for Sust. Env Mgmt; Project ID: P095205; Approval Date: 3/5/09; Comm. Amt: 1,300 m	1,300.0	800.0	62
	RGS Fiscal Sustainability DPL; Project ID: P106767; Approval Date: 7/31/08; Comm. Amt: 1,100m	1,100.0	650.0	59
	ALAGOAS Fiscal & Public Mgmt Reform; Project ID: P103770; Approval Date: 12/17/09; Comm. Amt: 195m	195.5	195.5	100
	Rio State DPL; Project ID: P117244; Approval Date: 2/2/10; Comm. Amt: 485m	485.0	485.0	100
Colombia (1,400 million)	3rd Sust. Dev DPL; Project ID: P101301; Approval Date: 12/18/08; Comm. Amt: 450m	450.0	450.0	100
	Disaster Risk Mgmt CAT DDO; Project ID: P113084; Approval Date: 2/18/08; Comm. Amt: 150m	150.0	0.0	0
	Social DPL; Project ID: P106708; Approval Date: 2/23/10; Comm. Amt: 500m	500.0	500.0	100
	Finance and Private Sector Dev; Project ID: P116088; Approval Date: 8/4/09; Comm. Amt: 300m	300.0	300.0	100
Georgia (125 million)	Supplemental Credit for PRSO IV; Project ID: P114167; Approval Date: 10/2/08; Comm. Amt: 40m	40.0	37.0	93
	DPO –1; Project ID: P112700; Approval Date: 7/2/09; Comm. Amt: 85m	85.0	89.1	105
Hungary (1,413 million)	Financial Sector Stability Loan; Project ID: P114991; Approval Date: 9/22/09; Comm. Amt: 1,413m	1,413.2	0.0	0
India (2,000 million)	Banking Sector Support Loan; Project ID: P116020; Approval Date: 9/22/09; Comm. Amt: 2,000m	2,000.0	2,000.0	100
Indonesia (3,950 million)	Fifth Development Policy Loan; Project ID: P110191; Approval Date: 12/9/08; Comm. Amt: 750m	750.0	750.0	100
	Second Infrastructure DPL (IDPL 2); Project ID: P111905; Approval Date: 12/9/08; Comm. Amt: 200m	200.0	200.0	100
	Public Expend. Supp. Facility (DPL-DDO); Project ID: P115199; Approval Date: 3/3/09; Comm. Amt: 2,000m	2,000.0	5.0	0
	Sixth Development Policy Loan; Project ID: P113638; Approval Date: 9/24/09; Comm. Amt: 750m	750.0	750.0	100
	Third Infrastructure DPL (IDPL3); Project ID: P115102; Approval Date: 9/24/09; Comm. Amt: 250m	250.0	250.0	100
Jordan (300 million)	Recovery Under Global Uncertainty DPL; Project ID: P117023; Approval Date: 11/19/09; Comm. Amt: 300m	300.0	300.0	100
Kazakhstan (1,000 million)	Development Policy Loan; Project ID: P119856; Approval Date: 5/25/2010; Comm. Amt: 1,000m	1,000.0	0.0	0
Mauritius (150 million)	Third Trade and Competitiveness DPL; Project ID: P112369; Approval Date: 3/31/09; Comm. Amt: 100m	100.0	107.8	108
	Fourth Trade and Competitiveness DPL; Project ID: P116608; Approval Date: 11/12/09; Comm. Amt: 50m	50.0	0.1	0
Mexico (3,709 million)	Environmental Sustainability DPL; Project ID: P095510; Approval Date: 10/2/08; Comm. Amt: 301m	300.8	300.8	100
	Supplement to Env. Sustain. DPL; Project ID: P115101; Approval Date: 12/18/08; Comm. Amt: 401m	401.0	401.0	100
	Framework for Green Growth DPL; Project ID: P115608; Approval Date: 10/20/09; Comm. Amt: 1,504m	1,503.8	1,503.8	100
	Economic Policies DPL; Project ID: P118070; Approval Date: 11/24/09; Comm. Amt: 1,504m	1,503.8	1,503.8	100

(Table continues on the following page.)

TABLE A14 World Bank: Bank Budget by Cost Category, Fiscal Years 2007–10 (*continued*)

Country/amount	DPO	Commitments ($ millions)	Disbursements ($ millions)	Percent disbursed
Nigeria (500 million)	Fin Sec + Pub Fin Mgmt DPC; Project ID: P117088; Approval Date: 7/28/09; Comm. Amt: 500m	500.0	507.5	102
Peru (1,560 million)	2nd Results & Accnt. (REACT) DPL/DDO; Project ID: P101177; Approval Date: 4/9/09; Comm. Amt: 330m	330.0	20.0	6
	First Prog. Environ DPL/DDO; Project ID: P101471; Approval Date: 2/17/09; Comm. Amt: 330m	330.0	20.0	6
	2nd Prog. Env DPL; Project ID: P116152; Approval Date: 12/8/09; Comm. Amt: 50m	50.0	50.0	100
	2nd Prg Fiscal Mgmt & Comp. DPL/DDO; Project ID: P101590; Approval Date: 8/5/08; Comm. Amt: 370m	370.0	220.0	59
	Suppl 2nd Prog Fisc. Mgmt & Comp DPL; Project ID: P115120; Approval Date: 12/18/08; Comm. Amt: 330m	330.0	150.0	0
	3rd Prog Fiscal Mgmt DPL; Project ID: P106720; Approval Date: 11/12/09; Comm. Amt: 150m	150.0		100
Poland (3,882 million)	Development Policy Loan [Public Finance Management, Employment, and Private Sector Development Programmatic Policy Loan]; Project ID: P112765; Approval Date: 12/22/08; Comm. Amt: 1,250m	1,250.0	1,359.2	109
	Empl. Entrepreneurship & HCDP DPL [DPL2]; Project ID: P116125; Approval Date: 6/30/2009; Comm. Amt: 1,300m	1,300.2	1,431.0	110
	Empl. Entrepreneurship & HCDP DPL [DPL3]; Project ID: P117666; Approval Date: 6/17/2010; Comm. Amt: 1,331m	1,331.3	0.0	0
Turkey (2,600 million)	CEDPL 2 [2nd Competitiveness and Employment DPL]; Project ID: P096840; Approval Date: 12/16/08; Comm. Amt: 500m	500.0	438.4	88
	Programmatic Electricity Sector DPL ; Project ID: P110643; Approval Date: 6/11/09; Comm. Amt: 800m	800.0	773.8	97
	REGE DPL [Restoring Equitable Growth and Emploment Programmatic DPL]; Project ID: P112495; Approval Date: 3/23/10; Comm. Amt: 1,300m	1,300.0	1,260.2	97
Ukraine (900 million)	Ukraine DPL 3; Project ID: P107365; Approval Date: 12/22/08; Comm. Amt: 500m	500.0	500.0	100
	Programmatic Financial Rehab. DPL 1; Project ID: P115143; Approval Date: 9/17/09; Comm. Amt: 400m	400.0	400.0	100
Vietnam (1,315 million)	Higher Education Dev. Pol. Prog. 1st Operation; Project ID: P104694; Approval Date: 6/23/09; Comm. Amt: 50m	50.0	52.4	105
	Second Program 135 Phase 2 Support; Project ID: P107062; Approval Date: 5/21/09; Comm. Amt: 100m	100.0	107.2	107
	PRSC 8; Project ID: P111164; Approval Date: 6/25/09; Comm. Amt: 350m	350.0	373.3	107
	Power Sector Reform DPO; Project ID: P115874; Approval Date: 4/6/10; Comm. Amt: 315m	315.4	0.0	0
	Public Inv. Reform 1; Project ID: P117723; Approval Date: 12/22/09; Comm. Amt: 500m	500.0	500.0	100
	Total	28,014.82	19,865.4	

Source: World Bank data as of July 2010.

Endnotes

Chapter 1

1. A real-time evaluation is carried out while a program is in full implementation and feeds back findings to the program for immediate use. See UNICEF 2003.
2. Formative evaluation is a method of judging the worth of a program while the program activities are emerging or evolving. Contrast with summative evaluation methods, which involve judging the worth of a program at the end of the program activities.
3. The 11 countries are Bangladesh, Colombia, Georgia, Hungary, Indonesia, Jordan, Mauritius, Mexico, Nigeria, Ukraine, and Vietnam.

Chapter 2

1. Bear Stearns was later acquired by JP Morgan Chase, Merrill Lynch by Bank of America.
2. Especially countries with high levels of migration to the United States, such as Mexico.
3. The underlying data and projections in this section are taken from the latest edition of the IMF's *World Economic Outlook* (April 2010).

Chapter 3

1. In April 2010, the Development Committee endorsed an $86 billion capital increase for IBRD and a $200 million capital increase for IFC (plus consideration of a long-term hybrid instrument as a form of contingent capital and earnings retention for a crisis reserve), thereby further enhancing the capacity of each to address this and subsequent crises. See Development Committee Communiqué, April 25, 2010 (Development Committee 2010).
2. IFC does, however, tend to adjust spreads downward quicker than upward. This is because loan pricing benchmarks in IFC's client countries are much more readily available in a high liquidity market environment than in a low liquidity one, when access to finance may be closed and benchmarks hard to ascertain. As a result, IFC's loan pricing may lag market spread increases during crisis periods.
3. Adjustments were made as part of IBRD's annual loan pricing review.
4. In MIGA's case, "MIGA response" is measured by the volume of new guarantees issued only.
5. Measured in real terms, as shown in figure 3.2, fiscal year 2009 fell short of 1999 commitments and disbursements, but 2010 exceeded them.
6. See especially box 3.2.
7. For the historical discussion, the chapter treats adjustment lending as the equivalent of development policy lending, which replaced it in fiscal 2004 as the Bank's primary quick-disbursing policy support instrument.
8. Based on a classification of countries as follows:

Most–affected: growth decline of 5 percentage points or more

Moderately affected: growth decline of 2–5 percentage points

Least–affected: growth decline of 2 percentage points or less.

9. Note that the fiscal 2002 spike in DPO commitment and disbursement shares was more about very low levels of investment lending that year than about high levels of DPOs.
10. Two other DPOs (financial sector loans to Hungary and Latvia) were extended on Special Development Policy Loan (DPL) terms, but were not approved as Special DPLs by the Board. The new financial terms for Special Development Policy Loans, approved by the Board on September 1, 2009, include a grace period of 3-5 years with a final maturity of 5-10 years; a minimum fixed spread over LIBOR of 200 basis points; and a front-end fee of 100 basis points. For further details, see World Bank Response to Financial Crisis: The Special Development Policy Lending Option, Report No. 49703, Operations Policy and Country Services and Corporate Finance and Risk Management, World Bank.
11. See, for example, World Bank 2009f, paragraphs 4 and 18. See also Development Committee 2009a,b. Both say: "The World Bank Group remains a premier source of development knowledge in a wide range of areas. Through capacity building, policy advice, and technical assistance, the World Bank Group has scaled up the dissemination of its development knowledge to assist developing countries assess the social and structural sources of vulnerability, address underlying policy and institutional weaknesses, as well as respond to and manage the consequences of the crises. In this context, the Bank has a proven track record of assisting developing countries to design and scale up sustainable safety nets. Diagnostic work, guidance notes, and toolkits are also underway in areas such as macroeconomic vulnerability, fiscal and debt sustainability and manage-

ment strategies, safety nets and policy options for dealing with the poverty and distributional impacts of the crisis, microfinance and housing finance, and the impact of financial crisis on infrastructure and PPI/PPP projects."

12. See, for example, World Bank 2009f, paragraphs 4 and 18.

13. See World Bank 2008b. It noted that one important lesson from experience is that the short-term responses to a crisis—macroeconomic stabilization, trade policies, financial sector policies, and social protection—cannot ignore longer-term implications for both economic development and vulnerability to future crises.

14. See Klein 2008, a speech delivered at the Munich Financial Summit, and Djankov and Angelov 2009, which focused on taxation issues using Bulgaria, as examples.

15. Mexico's pre-crisis Country Partnership Strategy of March 2008 had envisaged a limited lending program anchored in one large multisector DPL and advisory services, both Bank-financed AAA and fee-based. As the crisis unfolded and the program changed, the AAA and fee-based services were used to develop programs for Bank financial support. The cited fee-based services include analytical work to help a client develop new housing finance products, such as housing microfinance, targeted subsidies, and so on. They also include poverty and nutrition maps, used by the Ministry of Social Development to improve the targeting of social programs such as Oportunidades' nutrition component.

16. Their forecasts—and those of the EIU and the other forecasters—fell below –2 percent by the spring, before ending the year with forecasts in the –2.2 to –2.3 percent range. (Current estimates of the global growth rate for 2009 are in the –2.0 to –2.2 percent range.)

17. One such all-day meeting took place immediately after the Annual Meetings, on October 15, 2008, where Justin Lin and Danny Leipziger gave presentations about the crisis and the substantive response. Since then, there have been three more such meetings, which have provided important opportunities for learning and cross-fertilization.

18. For the IBRD, additional financing operations averaged less than 2 percent per annum in the fiscal 2001–06 period, and 15 percent from fiscal 2007 to 2010. For IDA, the corresponding percentages are 11 and 27 percent.

19. G-20 Chair Consultations of LICs on Flexibility and Adaptability of IFIs in Freetown (August 14, 2009) and London (August 17, 2009). http://www.development-finance.org/en/news/205-g20-consults-lics.html

20. G-20 Chair Consultations of LICs on Flexibility and Adaptability of IFIs in Freetown (August 14, 2009) and London (August 17, 2009). http://www.development-finance.org/en/news/205-g20-consults-lics.html

21. IFC's leverage ratio—outstanding borrowings and guarantees in relation to the sum of subscribed capital and retained earnings—also remained well within the limit of 4:1 prescribed by IFC's financial policies. This ratio changed from 1.4:1 in June 2008 to 2.1:1 in June 2009.

22. Also responsible for the IFC African, Latin American, and Caribbean Fund (ALAC Fund), which was established as part of the Sovereign Funds Initiative (SFI Sovereign Funds Initiative. ALAC has committed funding of $800 million, $600 million from sovereign and pension fund investors and $200 million from IFC).

23. Defined as having a market share of greater than 7 percent, measured by claims on the private sector. The minimum investment per bank is $15 million, with a stake of at least 10 percent (or 5 percent where the market share is greater than 20 percent.

24. A separate platform for coordinating IFIs' mobilization of funding for investment and advisory services for the Caribbean, including Haiti, was launched in mid-2010. The initiative will support reconstruction in Haiti and help address the impact of the financial crisis in the region. Funding partners are CDB, EIB, FMO, and IFC.

25. Separately, in February 2010, IFC signed a memorandum of understanding alongside an AfDB-led group of 7 other DFIs, including DEG, EIB, IDC, DBSA, FMO, and Proparco, covering cofinancing of investment projects in Africa.

26. IFC also took a conservative approach to administrative expenses, with the introduction of a cross-department "productivity tax" of 3 percent, a hiring freeze, and a suspension of IFC's variable pay programs, covering individual, team, and corporate performance awards (which was lifted in April 2010).

27. The number of projects did increase from 372 to 447, reflecting smaller average project size than in previous years.

28. Trade finance transactions require a capital allocation of 11 percent of committed funds, as opposed to 22 percent for a loan. Also, the capital allocation is only necessary once the trade line has been used, not in the event it is not drawn down.

29. A third source of funds is client contributions, which accounted for 6 percent of funding in fiscal 2009.

30. This action directly picks up recommendations made in IEG 2009b.

Chapter 4

1. The Financial Sector Stability Forum does not cover other systemic risks, such as debt or corporate distress.

2. On January 28, 2010, the Executive Board held an informal meeting to review Bank instruments. The introduction of a countercyclical DPL operation for situations when financing is necessary and the key objective is protection and maintenance of key public services was discussed, as were

modifications to the Special Development Policy Lending introduced during the East Asian crisis.
3. The purpose of the DPL-DDO has recently been defined as an instrument that helps the borrower address anticipated financing needs by allowing the borrower to draw on the loan at any time during a defined drawdown period (renewable for up to six years).
4. The fact that the Bank operation was delayed and ultimately not disbursed does not alter the fact that all parties wanted to work together at the time.
5. Over $1 billion in fiscal 2009, compared with equity write-downs in fiscal 2008 and 2007 of $140 million and $40 million respectively.
6. The total value of write-downs may, as IFC management acknowledges, have been exacerbated by IFC holding equity longer than it might have done during the boom years. Early attention to global risks beyond IFC's two country stress test scenarios could have been helpful, as well as better incentives and mechanisms for IFC staff to make equity sales.
7. Between fiscal years 2007 and 2009, investments in other Central American countries increased from $77 million to $823 million.
8. IFC has also supported IDA countries in the crisis period through a $450 million grant contribution to IDA in fiscal 2009. IFC contributed $500 million to IDA in fiscal 2010.
9. IFC pricing increased during the crisis period, but generally at a slower pace than the market. Between fiscal years 2008 and 2009, IFC trade finance fees increased on average by 50 basis points (33 percent). This compares with doubling or tripling of the cost of lines of trade credit in some emerging countries, including Argentina, Bangladesh, China, Pakistan, and Turkey, which accordingly had a short-term competitive advantage over other providers. See International Chamber of Commerce 2010.
10. The number of deals only fell by one in 2009, but average project size dropped by about half.
11. In 2008, the EIB Board of Governors brought forward the capital increase previously envisaged for 2010, raising EIB's subscribed capital by €67 billion to €232 billion. EBRD's capital was increased by 50 percent in 2010, to €30 billion from €20 billion, via a temporary increase in callable capital of €9 billion and a transfer from reserves to paid-in capital of €1 billion. Meanwhile, Proparco received a €300 million increase in June 2008.
12. This mirrors the debate in the early 2000s about how best to reach SMEs. The conclusion of the debate was that IFC could reach more SMEs by working through financial intermediaries who on-lend to SMEs and through large companies that support SMEs through supply-chain linkages.
13. Awards have included 2009 Trade Finance Deal of the Year and a Finance Asia Achievement Award.
14. Mechanisms to manage potential conflicts include: (i) That IFC co-invests in AMC-managed funds and through joint investments; (ii) the fund manager has the capacity to accept or reject an investment offer by IFC; (iii) the establishment of procedures to handle conflicts of interest, including that the advisory board of each fund (comprised of third party investors only) reviews conflicts of interest situations that are brought to them prior to the related fund's investment decision; (iv) the AMC fund management team for each fund owes its fiduciary responsibility to the fund and is tasked with making independent investment decisions on each investment opportunity. However, these measures may together be insufficient to alleviate the perception of conflict of interest.
15. Separately, IFC began syndicating parallel loans to IFIs (predominantly DFIs) in 2009.
16. Pricing is also an issue in direct operations, in that IFC requires full repayment of costs by clients in few of these operations. In effect, IFC is offering a subsidy to investment clients for the provision of private benefits (which runs counter to the advisory services pricing policy, which calls for subsidy only where there are distinct public benefits, and the subsidy could distort the market).
17. For the period from October 2008, when the crisis intensified, to March 2010 where data are available.
18. See Proparco annual reports of 2007, 2008, and 2009.
19. GTLP, meanwhile, has a target for only 15 percent of supported trade volume to be in IDA.
20. Advisory services crisis operations are individually monitored through regular monitoring and evaluation systems.
21. See also IEG 2010, p. 8, paragraphs 19–22.
22. This action directly picks up recommendations made in IEG 2009b.

References

Development Committee. 2010. Development Committee Communiqué, April 25. World Bank and IMF, Washington, DC.

———. 2009a. "Update to the Development Committee on Key Issues and World Bank Group Activities." Development Committee Communiqué, DC2009-0003, April 16. World Bank and IMF, Washington, DC.

———.2009b. "Update to the Development Committee on Key Issues and World Bank Group Activities." Development Committee Communiqué, DC2009-0013, September 29. World Bank and IMF, Washington, DC.

———. 2008a. Development Committee Communiqué, DC2008-0010, October 12. World Bank and IMF, Washington, DC.

———. 2008b. Development Committee Communiqué, DC2008-0011, October 12. World Bank and IMF, Washington, DC.

Djankov, Simeon, and Georgi Angelov. 2009. "Tax Stimulus as Crisis Response." Financial and Private Sector Development Vice Presidency, World Bank Group, Washington, DC.

IEG (Independent Evaluation Group), The World Bank Group. 2010. "Achieving Value-Driven Volume: MIGA's Development Results and Institutional Effectiveness—2010." IEG, Washington, DC.

———.2009a. "Independent Evaluation of the World Bank Group's Response to the Global Crisis." IEG Approach Paper. IEG, Washington, DC.

———. 2009b. *The World Bank Group Guarantee Instruments 1990-2007: An Independent Evaluation.* Washington, DC: World Bank.

———. 2009c. "The World Bank Group's Response to the Global Crisis: Update on an Ongoing IEG Evaluation." *Evaluation Brief 8.* IEG, Washington, DC.

———.2008a. "Lessons from World Bank Group Responses to Past Financial Crises." *Evaluation Brief* 6. IEG, Washington, DC.

———.2008b. *Using Knowledge to Improve Development Effectiveness: An Evaluation of World Bank Economic and Sector Work and Technical Assistance, 2000-2006.* Washington, DC: World Bank.

IEO (Independent Evaluation Office), IMF. 2010. "IMF Performance in the Run-up to the Current Financial and Economic Crisis." Issues Paper for and Evaluation by the Independent Evaluation Office. IEO, IMF, Washington, DC.

IFC (International Finance Corporation). 2008. "IFC Road Map, FY09–11 Creating Opportunity: Doing Our Part for an Inclusive and Sustainable World." February. IFC, Washington, DC.

———.2007. "IFC Strategic Directions: FY08–FY10—Creating Opportunity." February. IFC, Washington, DC.

IMF (International Monetary Fund). 2010a. "How Did Emerging Markets Cope in the Crisis?" IMF Policy Paper, Strategy, Policy, and Review Department, Washington, DC.

———. 2010b. "Fiscal Monitor: Navigating the Fiscal Challenges Ahead." May. IMF, Washington, DC.

———. 2010c. *World Economic Outlook: Rebalancing Growth.* April. Washington, DC: IMF.

———. 2009. "IMF Overhauls Lending Framework." IMF Press Release No. 09/85, March 24, Washington, DC.

International Chamber of Commerce. 2010. "Rethinking Trade Finance 2010: Global Survey." ICC Banking Commission Market and Intelligence Report, Paris.

Kahn, Dominique Strauss. 2008. "Remarks to the Board of Governors of the IMF at the Joint Annual Discussion, 2008 Annual Meetings of the International Monetary Fund and the World Bank Group." October 13. Washington, DC, World Bank.

Klein, Michael. 2008. "The International Financial Crisis: What Next for Emerging Markets." Speech delivered at the Munich Financial Summit, November 6. Washington, DC, World Bank.

Littlefield, Elizabeth, and Christoph Kneiding. 2009. "The Global Financial Crisis and Its Impact on Microfinance." CGAP, Washington, DC.

MIGA (Multilateral Investment Guarantee Agency). 2009. *World Investment and Political Risk*. Washington, DC: World Bank.

Standard Charted. 2009. *Annual Report.* http://annualreport.standardchartered.com/

Standard & Poor's. 2009. "Standard and Poor's Global Credit Portal, RatingsDirect: International Finance Corporation."www.standardandpoors.com/ratingsdirect

Stephanou, C. 2009. "Dealing with the Crisis: Taking Stock of the Global Policy Response." Financial and Private

Sector Development Vice Presidency, *Crisis Response Policy Brief 1,* World Bank Group, Washington, DC.
Tiwari, Sailesh, and Hassan Zaman. 2010. "The Impact of Economic Shocks on Global Undernourishment." World Bank Policy Research Working Paper No. 5215, Washington, DC.
U.K. National Audit Office. 2004. *London Underground: Are the Public-Private Partnerships Likely to Work Successfully?* London: UK National Audit Office.
UNICEF (United Nations Children's Fund). 2003. *Desk Review of Real Time Evaluation Experiences.* New York, NY.
U.S. GAO (Government Accountability Office). 2009. "American Recovery and Reinvestment Act: GAO's Role in Helping to Ensure Accountability and Transparency." GAO-09-453T, Government Printing Office, Washington, DC.
World Bank. 2010a. *The Crisis Hits Home: Stress Testing Households in Europe and Central Asia*. http://siteresources.worldbank.org/ECAEXT/Resources/258598-1256842123621/6525333-1259681048367/WorldBank_Crisis_Report.pdf.
———. 2010b. "Financial Crisis: What the World Bank Is Doing." http://www.worldbank.org/financialcrisis/bankinitiatives.htm.
———. 2010c. *Global Economic Monitor*, June/July 2010. Washington, DC: World Bank.
———. 2010d. *Global Economic Prospects 2010: Crisis, Finance, and Growth.* Washington, DC: World Bank.
———. 2010e. *Global Monitoring Report 2010: The MDGs after the Crisis.* Washington, DC: World Bank.
———. 2010f. "Proposal for a Permanent Crisis Response Window in IDA." Report No. 54955, World Bank, Washington, DC.
———. 2010g. "World Bank–International Finance Corporation Collaboration in IDA Countries: Second Progress Report." IDA-IFC Secretariat Report No. 54447, Washington, DC.
———. 2009a. "Development Policy Lending Retrospective: Flexibility, Customization, and Results." http://siteresources.worldbank.org/PROJECTS/Resources/40940-1258057670156/DPL_RETRO_FINAL_DRAFT_NOVEMBER11.pdf.
———. 2009b. "Framework Document for a Rapid Social Response Program." World Bank, Washington, DC. http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2009/04/16/000334955_20090416012105/Rendered/PDF/481210BR0SecM2101Official0Use0Only1.pdf
———. 2009c. "Georgia, First Development Policy Operation." Report No. 48437-GE, Europe and Central Asia Region, World Bank, Washington, DC.
———. 2009d. *Global Development Finance 2009: Charting a Global Recovery.* Washington, DC: World Bank.
———. 2009e. "World Bank Group Infrastructure Recovery and Assets Platform: Sustainable Infrastructure Action Plan Progress Report for the Fiscal Year 2009." World Bank Working Paper No. 53228, Washington, DC.
———. 2009f. "World Bank Group Operational Response to the Crisis." Report No. 47913, World Bank, Washington, DC.
———. 2008a. *Global Development Finance 2008.* Washington, DC: World Bank.
———. 2008b. "Lessons from World Bank Research on Financial Crises." Working Paper 4779, World Bank, Washington, DC.
———. 2008c. "Proposal for an IDA Financial Crisis Response (FCR) Fast Track Facility." World Bank, Washington, DC.
———2007. *Strengthening the World Bank's Engagement with IBRD Countries: Implementation Report.* Washington, DC: World Bank.
World Bank and IMF. 2010. "Implementation of the Joint Management Action Plan on Bank-Fund Collaboration." World Bank and IMF, Washington, DC.
———. 2009. "The Financial Sector Assessment Program after Ten Years: Experience and Reforms for the Next Decade." World Bank and IMF, Washington, DC.
Zoellick, Robert B. 2008. "Modernizing Multilateralism and Markets." Statement delivered at the 2008 Annual Meetings of the International Monetary Fund and the World Bank, Washington, DC, October 6.

Photographs

Cover	Child eating porridge from a food bank, Lukula, Tanzania
x	People looking for useful items in garbage landfill, Mexico.
xii	Woman coal miner outside mine, Colombia.
xv	Maputo harbor cranes, workers offloading rice imports, Mozambique.
xix	Elderly woman, Mexico.
1	View of an alleyway, India.
5	Mother and child, Madagascar.
10	Street scene, India.
15	Woman counting money at Proshika Credit Group meeting, Bangladesh.
20	Man working the fields, Ethiopia.
32	Port activity, Mexico.
43	Miner waiting to enter the shaft of the Glubokya mine, Ukraine.
45	Rural laborer with cargo of firewood, Colombia.
52	Group of miners entering shaft at Glubokya mine, Ukraine.
71	City viewed through ruins, Jordan.
73	Teenagers from the neighborhood in a secluded corner, Tbilisi, Georgia.
76	Elderly Bulgarian couple out for a ride in the countryside, northern Bulgaria.
77	Roma men scavenge steel rebar from the rubble of a looted sugar factory, Lom, Bulgaria.
79	Transfer of cargo, Bangladesh.

Recent IEG Publications

Annual Review of Development Effectiveness 2009: Achieving Sustainable Development
Addressing the Challenges of Globalization: An Independent Evaluation of the World Bank's Approach to Global Programs
Assessing World Bank Support for Trade, 1987–2004: An IEG Evaluation
Books, Building, and Learning Outcomes: An Impact Evaluation of World Bank Support to Basic Education in Ghana
Bridging Troubled Waters: Assessing the World Bank Water Resources Strategy
Climate Change and the World Bank Group—Phase I: An Evaluation of World Bank Win-Win energy Policy Reforms
Debt Relief for the Poorest: An Evaluation Update of the HIPC Initiative
A Decade of Action in Transport: An Evaluation of World Bank Assistance to the Transport Sector, 1995–2005
The Development Potential of Regional Programs: An Evaluation of World Bank Support of Multicountry Operations
Development Results in Middle-Income Countries: An Evaluation of World Bank Support
Doing Business: An Independent Evaluation—Taking the Measure of the World Bank–IFC Doing Business Indicators
Egypt: Positive Results from Knowledge Sharing and Modest Lending—An IEG Country Assistance Evaluation 1999¬–2007
Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress
Environmental Sustainability: An Evaluation of World Bank Group Support
Evaluation of World Bank Assistance to Pacific Member Countries, 1992–2002
Extractive Industries and Sustainable Development: An Evaluation of World Bank Group Experience
Financial Sector Assessment Program: IEG Review of the Joint World Bank and IMF Initiative
From Schooling Access to Learning Outcomes: An Unfinished Agenda—An Evaluation of World Bank Support to Primary Education
Hazards of Nature, Risks to Development: An IEG Evaluation of World Bank Assistance for Natural Disasters
How to Build M&E Systems to Support Better Government
IEG Review of World Bank Assistance for Financial Sector Reform
An Impact Evaluation of India's Second and Third Andhra Pradesh Irrigation Projects:
A Case of Poverty Reduction with Low Economic Returns
Improving Effectiveness and Outcomes for the Poor in Health, Nutrition, and Population
Improving the Lives of the Poor through Investment in Cities
Improving Municipal Management for Cities to Succeed: An IEG Special Study
Improving the World Bank's Development Assistance: What Does Evaluation Show:
Maintaining Momentum to 2015: An Impact Evaluation of Interventions to Improve
Maternal and Child Health and Nutrition Outcomes in Bangladesh
New Renewable Energy: A Review of the World Bank's Assistance
Pakistan: An Evaluation of the World Bank's Assistance
Pension Reform and the Development of Pension Systems: An Evaluation of World Bank Assistance
The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003
The Poverty Reduction Strategy Initiative: Findings from 10 Country Case Studies of World Bank and IMF Support
Power for Development: A Review of the World Bank Group's Experience with Private Participation in the Electricity Sector
Public Sector Reform: What Works and Why? An IEG Evaluation of World Bank Support
Small States: Making the Most of Development Assistance—A Synthesis of World Bank Findings
Social Funds: Assessing Effectiveness
Sourcebook for Evaluating Global and Regional Partnership Programs
Using Knowledge to Improve Development Effectiveness: An Evaluation of World Bank
Economic and Sector Work and Technical Assistance, 2000–2006
Using Training to Build Capacity for Development: An Evaluation of the World Bank's Project-Based and WBI Training
The Welfare Impact of Rural Electrification: A Reassessment of the Costs and Benefits—An IEG Impact Evaluation
World Bank Assistance to Agriculture in Sub-Saharan Africa: An IEG Review
World Bank Assistance to the Financial Sector: A Synthesis of IEG Evaluations
World Bank Group Guarantee Instruments 1990–2007: An Independent Evaluation
The World Bank in Turkey: 1993–2004—An IEG Country Assistance Evaluation
World Bank Engagement at the State Level: The Cases of Brazil, India, Nigeria, and Russia

All IEG evaluations are available, in whole or in part, in languages other than English.
For our multilingual section, please visit http://www.worldbank.org/ieg.

ISBN 978-0-8213-8665-1

SKU 18665

IEG WORLD BANK | IFC | MIGA
INDEPENDENT EVALUATION GROUP