

# IEG

INDEPENDENT EVALUATION GROUP

## Lessons from World Bank Group Responses to Past Financial Crises

EVALUATION BRIEF

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Evaluation Brief 6

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# Preface

The current financial crisis differs from past crises in many respects—its roots in the financial systems of developed countries, its global reach, and its effects on both middle- and low-income countries. Despite these differences, some of the lessons from past World Bank Group (WBG) responses to crises have relevance today. Those lessons are the subject of this paper.

A review of the experience finds that programs that focused on areas of World Bank strength—whether public finance, social safety nets, trade, or infrastructure—were much more successful than those that tried to cover a broad range of topics. Customizing policy advice to a country was as important as assuring technical quality. It also finds that poverty in financial crisis did not get sufficient attention, and that it pays to factor it in from the beginning rather than later.

Collaboration across sectors and among the WBG and partners has proven crucial, not only to maximize synergies but also to avoid unproductive tensions. Preparedness, timeliness, appropriateness of instruments, and continuity of follow-on operations have been determinants of effectiveness. These aspects can be strengthened through organizational arrangements.

From evaluations as well as other findings, several factors emerge as vital in today's crisis:

- *Speed and quality.* Both the speed of the response and the quality of the intervention are crucial. There are examples of quick WBG response that can be built on. Quality encompasses a content dimension—for instance, the value of focusing on public expenditure issues or integrating social safety programs from the early stages of any effort.
- *Preparedness and early warning.* The value of preparedness is likely to emerge as even higher during the current crisis relative to past episodes. A more effective mechanism than currently exists seems to be needed for early warning of crises; the WBG could work with the International Monetary Fund on its design and implementation.
- *WBG resources.* To achieve an adequate and high-quality response may well require relieving constraints on budget allocations and staffing skills, as well as broader constraints, including through a greater leveraging of WBG efforts with partners.
- *Monitoring, evaluation, and reporting.* With the premium on speed, results frameworks that link objectives, program costs, and benefits take

on added, not lessened, value. The focus on results is even more important when resources are scarce.

- *Fiduciary concerns.* Financial and risk management as well as environmental and social safeguards will continue to be vital to ensure that scarce resources reach intended beneficiaries and that negative consequences are avoided.
- *Poverty and social safety nets.* During past financial crises, poverty issues did not get sufficient attention. It is crucial to factor in the implications for social safety nets from the beginning of the crisis rather than later.
- *Environment and climate change.* Climate change and environmental problems need to be factored into any crisis response much more centrally than before. The WBG must build on the recent momentum in mobilizing funds to address climate change and to foster greener development activities.

These are enormously difficult times. It is critical that the actions of countries and the international community match the challenges not only in speed and scale but also in quality and impact.

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# Summary

The ongoing financial crisis in the United States and other developed countries is spreading to the developing world, middle- and low-income countries alike, threatening years of progress in poverty reduction. The World Bank Group is uniquely positioned to help clients confront the crisis and mitigate its adverse effects. The institution is planning a vast scale-up in support in the present crisis.

Experiences with past crises bring out substantial differences in the effectiveness and results of Bank Group crisis support. With important modifications to reflect contextual differences between present and past events, these lessons can inform today's response and help improve results. One such contextual change is the increased urgency of simultaneous actions to deal with the environment and climate change.

## World Bank

Prior crises led to large temporary increases in Bank lending, often underpinned by ambitious programs of policy reform. Experience, for example, during the events of the 1990s, points to three broad areas requiring close attention:

- *Quality, focus, and selectivity.* The speed and quality of Bank response are both crucial for good outcomes during and after crises. Past cri-

sis 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, for example, fiscal and public expenditure policies. It is vital to attend to poverty dimensions from the outset of a crisis, and not only in later stages. Customizing policy advice to the country context is as important as assuring its technical quality.

- *Financing modalities and organizational arrangements.* Programmatic Development Policy Loans (not available in previous crises) can usefully address crisis needs. Additional instruments may also be needed for initial liquidity support as part of multipartner packages. Internal organizational arrangements can make a big difference, as they affect the degree of preparedness, cross-sectoral coordination, timeliness of response, and appropriateness of instruments—all factors in getting results.
- *Coordination with partners.* Coordination among key partners is critical, as differences of view surface quickly during crises and are potentially damaging to results. Collaboration across the Bank Group (Bank, International Finance Corporation [IFC], and the Multilateral Investment Guarantee Agency [MIGA]) also strengthens program effectiveness, although evaluations found little evidence of joint efforts during past crises.

## IFC

While the flow of new IFC investments tended to fall sharply in the immediate wake of past crises, these events helped transform IFC's business model toward a broader range of investment and advisory services and increased field presence. Evaluations suggest the need for close attention to the following areas:

- *Nature and timing of IFC investments.* Development success rates in projects approved post-crisis were on average 25–30 percent higher than in those approved pre-crisis. 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. Conversely, failure to deal decisively and expeditiously with its own problem projects can undermine IFC's effectiveness in responding to crisis.
- *Opportunities and constraints for bigger impact.* Crises can present opportunities to reach new clients and to be rewarded for risk taking. However, 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. Separating work-out and new-business teams may help, in addition to facilitating collaboration among Bank and International Monetary Fund (IMF) teams. The quality of a country's bankruptcy regime and its enforcement is a key driver of how effective IFC's response is to restructuring needs during crises.
- *IFC's internal practices.* Speed of response is critical: IFC's effectiveness was better when it acted quickly to adapt its strategies, programs, and exposure to deteriorating economic conditions. Furthermore, projects approved or restructured in crises were more likely to be successful when they were conscientiously documented and embodied conservative as-

sumptions (for example, on the availability of complementary sources of finance).

## MIGA

Evaluation work suggests that transparent, competitive tendering of infrastructure, built-in flexibility for mutually agreed contract modification, and good fit with Bank country strategies and sector policies enhanced resilience of MIGA-supported projects during crises. Twenty-five percent of the total volume of MIGA guarantees issued between 1995 and 2002 was in crisis-affected countries—Argentina, Brazil, Pakistan, Indonesia, Ecuador, the Russian Federation, and Turkey—directed mostly to the financial sector and infrastructure.

MIGA's risk-mitigation capacity was tested by these crises, during which two of the three claims in MIGA's entire history were paid. Political risk—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.

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The present financial crisis is in many respects unprecedented, and the global economic contraction that it has triggered is leading to a rapid rise in unemployment and swelling the ranks of the poor. Bank Group provision of crisis support to low- and middle-income countries (MICs), particularly in concert with other development partners, can help confront the severity of the economic slowdown and its social impact. At the same time, given the limited availability of resources and their leveraging role—as well as the downside from their potential misuse—every effort must be made to maximize the development effectiveness of the Bank Group's crisis support. Every crisis is unique, and evaluative lessons from past crisis responses cannot yield precise guidance for delivering effective crisis support today. They can, however, point to crucial factors that may make a difference to the effectiveness of today's response.

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## CHAPTER 1

# Context

A worldwide financial crisis of enormous magnitude continues to unfold rapidly. Unlike other crises in recent decades, the current episode is rooted in industrial countries' financial systems and is affecting low-income countries and MICs alike. Defaults on securitized sub-prime mortgages as a real estate market bubble burst led to failures or near-failures of several large financial institutions and a collapse of inter-bank and commercial paper markets. A tightening of credit, combined with declining consumer confidence, has brought on worldwide recession with growing unemployment, and many fear that the downturn will be severe and protracted. At the same time, the rapidly multiplying signs of contraction are prompting strong responses, including fiscal stimulus packages and reductions in benchmark lending rates, on the part of several of the affected developed countries.

Many developing countries, both IBRD- and IDA-eligible, have already been hit, despite their maintenance—as a general but not universal rule—of improved macroeconomic and trade policy stances and healthier financial sectors compared with previous decades. New external financing flows to them, including export credits, have declined sharply, and foreign debt and equity funding is being withdrawn from many of them. Developing countries' export growth is already slowing, in turn reducing growth in their output and income, and the situation promises to worsen further.

In general, developing countries' financial systems do not feature substantial trading in derivative instruments of the kind that created problems in the industrial countries, although

some banks and governments have used futures contracts. Initially, the hardest hit countries have been those that were more open to external inflows, export-oriented, characterized by weak financial sectors and/or excessively dependent on external finance. But eventually the crisis will hurt all countries and challenge their macroeconomic policy and financial sectors.

These adverse effects on developing countries—on top of the spike in food and energy prices earlier in the year—threaten to reverse the substantial gains in poverty reduction of the last few years. Experience suggests that whether crises start in the real or the financial sector, they have negative effects as a result of the deterioration in nutrition, education, health care, and social spending. Moreover, there is a risk that at least some countries will react to the crises with protectionist policies and/or with policies that stem or even reverse recent progress on the environmental protection and climate change agenda, leading to a further negative impact on growth over the long term.

The Independent Evaluation Group (IEG) found that in the decade of 1993–2003 there were crises<sup>1</sup> in 17 countries during which they received crisis-related support from the Bank, starting with Mexico and Argentina in the early 1990s and followed by Jamaica and then Thailand, Indonesia, and Korea in 1997. (Malaysia also experienced a smaller crisis but received no support from the Bank.) Crises also broke out in Russia, Brazil, Bulgaria, Bolivia, and Ecuador. In 2000–02, there were also crises in Argentina, Guatemala, Turkey (which had had prior crises in 1994 and 1999, and Uruguay. Beyond this definition, other countries also experienced repeated episodes of sector-

specific financial crisis. For example, Mongolia had banking crises in 1992, 1994, 1996, and 1998 (IEG 2006).

### **Evaluation Can Help Inform the World Bank Group's Response to the Current Crisis**

The Bank Group is well placed to help mitigate the impact of the current crisis with financing and advisory services, and its clients are already requesting increased support. A rapid, high-quality response that combines financial and advisory support can do much to ease the inevitable ramifications of the crisis. Lessons from evaluations of previous Bank Group responses to past crises can help inform the response to the current crisis in order to increase its effectiveness.

IBRD is gearing up to increase lending to \$35 billion in FY09 (compared with some \$13.5 billion in FY08), of which at least \$15 billion could be crisis related. By front-loading IDA commitments, funding volumes for low-income countries could similarly increase substantially. With such large increases being contemplated, the challenge will be to ensure quality and development effectiveness of the additional IBRD and IDA funding, as well as its complementarity with the support provided by other partners, particularly the IMF. Speed of response is also of the essence, of course.

IFC's likely response to the current crisis encompasses a range of measures covering financial and real sectors and including investments as well as advisory services. IFC is planning to provide advisory services to financial institutions to strengthen their capability to withstand crisis conditions and to strengthen their financial position. The planned response also includes programs to provide short-term finance (including trade finance) to the real sector. IFC will provide capital to vulnerable banking systems through a Recapitalization Fund, which would include contributions from IFC and other donors and would recapitalize distressed banks, which may have a systemic impact.

Through the Bank Group's past crisis response experience has considerable relevance to its response to the present crisis episode and can help inform it, contextual differences between the present and past crises must be factored in. Crucially, the environmental and climate change agenda has much greater urgency today than a decade ago, in part reflecting heightened concern (and to some extent understanding) of likely irreversibilities and catastrophic shifts in the absence of strong, sustained action. Given this change in context, it would be critical that the Bank Group continue to build on the recent momentum in this agenda during its response to crisis, as it has shown recent signs of doing.

In turn, this may entail an imperative to look for ways for the Bank to link its crisis funding support to concrete efforts to foster greener development activities, for example, through renewable energy development, with IFC and MIGA providing complementary support to the private sector. In a similar vein, the greater reach of disruption that characterizes the present crisis compared with more regional or individual-country crises in the past may affect IFC's capacity to fund its operations and to mobilize private financing from developed economies, because the vulnerable positions of major international financial institutions in developed and emerging markets may prevent them from fulfilling their roles as co-financiers. IFC may therefore need to focus on smaller projects and work more closely with other development partners.

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#### **Note**

1. IEG evaluations have noted that there is no agreed definition of what constitutes a crisis. See *IEG Review of World Bank Assistance to Financial Sector Reform* (henceforth IEG 2006) and *Development Results in Middle-Income Countries: An Evaluation of the World Bank's Support* (hereinafter IEG 2007). IEG 2007 referred to crises as "abrupt and disruptive events—involving acute problems in the exchange rate, the banking system, or the external debt—[that] carried considerable costs in terms of economic recession and a worsen-

ing of poverty conditions.” IEG 2006 identified traits of typical crisis situations where there was “... both a banking crisis and a macroeconomic crisis, either simultaneously or in quick succession. The run on banks resulted in illiquidity and required government action, and the macroeconomic crisis led to a

large devaluation. The combination of events created problems for the corporate sector, which could no longer service its loans, creating further pressure on the banks and affecting outputs and investments; growth dropped and poverty increased.”



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## CHAPTER 2

# World Bank Responses to Crises: Findings and Lessons

### **Patterns in Past World Bank Crisis Responses**

Two major IEG evaluation reports (IEG 2006 and 2007) summarized lessons from previous crises. In addition, IEG conducted evaluations from individual country episodes, particularly for countries affected by the East Asia crises of 1997–99 (Indonesia, Thailand) and other countries in Eastern Europe (Russia and Turkey) and Latin America (Brazil, Mexico, Argentina, and Colombia). This section distills lessons from past crisis-related interventions on the Bank's part, drawing largely on already completed IEG evaluations.

#### ***Increased Lending***

The Bank's response to past crises included a large but temporary increase in lending, much of it fast-disbursing, supporting a broad range of reforms. In the 1980s, lending to address the economic difficulties of several countries was already high: Turkey, for example received five adjustment loans during the 1980s and total lending volume exceeded a billion dollars a year from 1986 to 1989, helping create a substantial increase in economic growth (although newly emerging internal imbalances led to a new crisis episode in 1994).<sup>2</sup> During the 1990s, the level of Bank assistance to crisis countries increased substantially in absolute terms, but was modest as a share of the total size of the rescue packages and fell back to its previous levels soon thereafter. During the period 1993–2003, the Bank provided about \$21 billion in financial assistance to crisis countries (IEG 2006, page 40).

The largest amount for a single country was for Korea, with \$7 billion, and the second largest was

the 1998 Argentina package of \$3 billion (a \$2.5 billion Special Structural Adjustment Loan plus a \$500 million guarantee).<sup>3</sup> Crisis lending to Turkey was more than \$2.5 billion; Thailand and Indonesia received more than \$2 billion each. In the case of Russia, the actual amount of Bank lending related to the crisis is more difficult to calculate: the Bank pledged \$6 billion as part of the international rescue package but disbursed a much smaller amount, and there were large restructurings and cancellations of existing loans; as a result, the total amount outstanding only increased by \$500 million during the 1998–2000 period (from \$6.3 to \$6.8 billion).

In aggregate terms, the extraordinary level of financial support provided by the Bank during the years of the “East Asia-plus” crisis can be seen from the trends in adjustment lending before, during, and after the crisis. From FY95 to FY97, total adjustment lending remained at an average of about \$5 billion per year. Adjustment lending more than doubled in FY98 (to \$11 billion) and increased by a further 50 percent in FY99 (to \$15 billion).<sup>4</sup> By FY00, adjustment lending returned to the pre-crisis level of about \$5 billion.

The large lending levels of the 1998–2000 period led to a big spike in total Bank commitments and disbursements (and, in turn, created short-term financial difficulties because of the high levels of loan loss provisions that they required in the Bank's balance sheet) before returning to a declining long-term trend. In relative terms, however, the Bank contribution was in some cases modest relative to the total size of the rescue packages. In the case of Korea, the size of the total package was \$58 billion. Of this, the



Bank pledged \$10 billion, or about 17 percent (total disbursements were lower, for the total package and the Bank's component).<sup>5</sup> In Thailand, the August 1997 rescue package amounted to \$17 billion, with the Bank pledging slightly over 10 percent, although it eventually contributed a somewhat larger share.

### ***Policy Dialogue***

The increased lending to crisis countries was accompanied by broad-ranging policy dialogue and conditionality in the adjustment loans. There were multisector operations as well as loans focusing on the financial sector, on macroeconomic adjustment, fiscal reform, corporate distress and restructuring, social security, and poverty alleviation. Many operations had a significant number of conditions, especially when they were multisector. While the policy reforms sought were needed, and several countries introduced them successfully, evaluations indicate that some others were not prepared to take some of the reform measures. In a few cases, the proposed reforms did not take country conditions fully into account or may have been outright counterproductive.

### ***Effectiveness of Crisis Support***

World Bank loans were generally successful in supporting financial and some public sector reforms, but the poverty focus was insufficient. There were attempts to protect pro-poor spending and reduce the poverty impact of the crises (Brazil and Thailand), but overall attention to this area was insufficient. There were also disagreements with the IMF on exchange rate policy (Mexico and Russia), on the scale of macroeconomic adjustment (Indonesia and Thailand), and on what balance to strike between short-term crisis management imperatives and measures to alleviate corporate distress (Thailand). Evaluations also found that the loans were excessively ambitious in the range of problems they tried to tackle and in the large number of conditions they included. In addition, there were problems in several aspects of the Bank's institutional response to crises. These

included poor cooperation between the Bank and the IMF (and with regional banks), as well as among several units within the Bank.

### ***Poverty Alleviation***

Crises pose a major threat to the more vulnerable segments of society, because of the recession and rising unemployment that usually accompany a crisis, as well as because of the curtailment of governmental social programs as a result of the fiscal adjustment that often is required in the aftermath of a crisis. IEG 2007 (on support to MICs) noted that "deficiencies in crisis preparedness were particularly evident in the area of poverty." One qualification, however, is that crisis-related support from the Bank in other cases that post-date the crisis episodes covered in this paper—typically instances where the crisis was confined to the recipient country or few countries—has not been systematically evaluated in terms of the effectiveness of how poverty concerns were handled.

Evaluations of the experience in Brazil, Russia, and Thailand show that in none of the three cases did the Bank have contingency plans that would have allowed the rapid launching of programs to strengthen the social safety net. In Russia, where the impact on poverty was the most dramatic, the Bank's previous work on social protection had been mainly focused on pension reform and the labor market consequences of the restructuring of state enterprises, but the Bank was unable to interest the government in setting up formal protection mechanisms that could serve as a safety net. In the other two countries, the Bank's experience was better. In Thailand, albeit with a year's delay, the Bank responded to the authorities' concerns and approved a Social Investment Loan that effectively supported the poverty alleviation programs that had been set up by the government or by local private and voluntary organizations. In Brazil, the Bank emphasized social protection and moved rapidly in the aftermath of the crisis with a budget support loan that specifically protected 22 relevant programs from the budget cuts that the government was making.

Both initiatives proved fairly successful and were rated as satisfactory.

In sum, given the centrality of poverty alleviation in the Bank's work and the adverse consequences that crises have in this regard, a major point of focus in its crisis interventions should be to facilitate the protection of vulnerable sectors and/or groups from adverse crisis-related impacts. Advance work could be done in countries at risk to define and prepare contingent social protection measures—support for unemployed heads of households, food programs, and school subsidies, for instance—to be deployed at a time of need.

### ***Macroeconomic Policy and Stabilization***

This critical aspect of the policy response to crises will continue to be relevant in the present episode. In spite of a long tradition of Bank support for stabilization efforts under the aegis of an IMF program or with that institution's comfort, and the frequent use of adjustment lending for this purpose since the early 1980s, some experiences in the late 1990s show mixed results and the need for better cooperation with the IMF. Support for stabilization was mainly the responsibility of the IMF, and the Bank played a limited role in this area. Nevertheless, disagreements emerged between the two organizations, for example, on the exchange rate policy in Mexico and Russia<sup>6</sup> and on overall macroeconomic adjustment in Indonesia and Thailand.<sup>7</sup> Although many countries have improved their macroeconomic performance during the last decade, as global credit tightens and international trade slows down, support for and discussions about the adequacy of macroeconomic policies will regain importance.

### ***Trade Policy***

Trade policy reforms were an important element in earlier crises episodes but were much less important during the crises of the late 1990s, as considerable improvements had taken place in trade liberalization worldwide, particularly in the East Asia countries. Previous support for trade

reform was particularly important in Latin America and Africa. In the current scenario, trade policy is a major source of concern in the industrialized countries, but a slowdown in international trade (and in trade financing) may generate a return to increased protectionism and may require attention by the Bank.

### ***Fiscal and Public Sector Reform***

Fiscal and public sector reform is one of the areas where the Bank has had the longest experience in supporting countries experiencing crisis situations. This includes a long list of adjustment operations in all regions since the early 1980s. In Turkey, where the three crises between 1994 and 2001 originated from substantial fiscal imbalances, the Bank supported fiscal reforms in the three occasions, unsuccessfully the first time and more successfully in the two subsequent crises. Assistance for fiscal and public sector reforms was an important part of Bank lending in several crisis countries in the late 1990s. In Brazil two of the five crisis loans were focused on fiscal reforms (the other three focused on social security and social protection). In Thailand one loan was a Public Sector Reform Loan, and several other operations included public sector reform objectives. In Colombia fiscal adjustment operations followed interventions in the financial sector.

The Bank's experience and the willingness of governments to make some unpopular decisions during crises have accounted for many successful Bank interventions, at least in the initial phases. Also, the reforms needed at the early stages lend themselves easily to support through quick-disbursing operations. Later stages of the reforms require more complex institutional actions (for example, civil service reforms) and thus are more challenging. Some unsuccessful cases (such as Russia's 1998 crisis) suggest that the need for urgent liquidity support may have led the Bank to participate in support packages under fiscal conditions that were unsustainable.

In sum, experience suggests that Bank support for fiscal and public reforms does better when

there is a focus on structural issues related to the quality of public expenditures—including the targeting of pro-poor spending and the efficiency of the revenue system—and extends beyond the initial response to the crisis; objectives in the early stages should be modest.

### **Financial Sector**

Underlying weaknesses in the countries' financial sectors were the initial cause of some of the earlier crises. In other cases they were a consequence of the crisis (because of the economic slowdown and corporate distress) and/or were exposed after an external shock created additional financial stress. Under both sets of circumstances, financial sector stress, failures of bank and nonbank-financial institutions, and the need for regulatory reforms and financial sector restructuring were features of most crises.

The major finding of the IEG evaluations of 37 operations in 14 countries was that the Bank's support achieved its objectives in many cases, but the success rates of the loans including support for financial reforms during crises were lower than for similar financial sector reforms in noncrisis situations. The Bank paid insufficient attention to financial sector issues in several countries in the years prior to the crises (Mexico, Thailand, and Korea) or had underestimated the warning signals and been excessively optimistic in others (Indonesia and Turkey).

The financial sector reforms supported under many of the crises loans were extensive and similar in nature and scope to those of loans supporting "noncrisis" reforms; yet the operations were designed quickly and often based on the promise of reforms that in some cases did not take place (for example, Indonesia). Some of the specific reforms supported were, in retrospect, considered counterproductive (for example, the closing of most finance companies in Thailand). And even when satisfactory financial sector reforms were implemented by the government, the Bank's contribution was

limited because it was delivered too late (Colombia); better preparation and more timely inputs could have contributed to faster reforms and lower crisis costs. Overall, the broad scope and ambitious objectives of many financial sector Bank loans and potential conflict with the specific circumstances and needs of multidonor rescue packages also raise questions related to loan design and adequacy of instruments.

IEG also evaluated the Financial Sector Assessment Program (FSAP) in late 2005;<sup>8</sup> at that time more than 109 country assessments and 18 updates had been completed or were ongoing. The FSAP consists of diagnostic studies to facilitate early detection of financial sector vulnerabilities and identification of financial sector development needs. The evaluation found that the FSAP is a good quality diagnostic mechanism and that the overall concept for the program was sound, facilitated Bank-IMF collaboration, and allowed for an integrated approach toward financial sector vulnerabilities and development needs while expanding the depth and quality of analytical expertise. IEG's findings on FSAPs were recently confirmed through a self-assessment by the Financial and Private Sector Development (FPD) Sector Board.

The IEG evaluation found some weaknesses and limitations in the FSAP, including country selection (the voluntary nature of the program limits its overall effectiveness in identifying systemic risks), poor prioritization of the many recommendations (which limited the impact of the overall program), and uneven coverage of specific sectors (better for the banking sector than for nonbank financial sectors). Overall, however, the experience with the FSAP should facilitate the response to the financial sector aspects of the current and future crises. In sum, the quality of assistance to financial sector reforms would have benefited from greater attention to country-specific issues and from greater realism in conditionality; increased coordination with the IMF (mainly through the FSAP program) since then will undoubtedly

have helped. Financial sector reform is now recognized as more of a process and less of a single cluster of reforms, and so may benefit from multiple follow-up loans after initial support with low conditionality.

### ***Corporate Distress and Regulatory Reform***

Support for regulatory and institutional reform, including enterprise restructuring, was a major thrust of Bank assistance to the transition economies (including Russia) following the collapse of the Soviet Union in 1991 and the protracted crises that these economies experienced throughout the 1990s. Results of Bank assistance in this area were mixed. During the East Asia crisis, the issues of corporate distress and restructuring and their interaction with short-term crisis management became most important in the case of Thailand.

Arguably, some of the initial macroeconomic (and financial sector) reforms supported by the IMF and the Bank exacerbated the level of corporate distress (unnecessarily so in a context where the fiscal situation was not a major issue). More importantly, attention to corporate restructuring issues took too long to emerge, and the lack of adequate knowledge of the country's legal framework led to inadequate advice.<sup>9</sup> The major lessons are the need for adequate country knowledge, for early attention to corporate distress, and for awareness of the tensions between short-term crisis management measures and medium-term regulatory and structural reforms that can mitigate the impact on the corporate sector, and thus on output and employment.

### **Areas of Attention for the Bank's Current Crisis Response**

#### ***Selectivity and Areas of Focus***

The evaluation findings suggest that it is preferable for crisis support from the Bank to have a selective rather than broad focus, to be

embedded in a medium-term results framework, and to focus on the Bank's comparative strengths. Because crises touch a wide range of areas, the instinctive reaction may be to seek to address a broad set of issues and reflect this in wide-ranging conditionality under crisis loans. Past crisis lending often featured a broad range of conditionality. But a more selective approach was generally more successful, notably in loans directed at the financial sector. Programs with a well-defined results framework and selective conditionality tended to be more successful than those with front-loaded conditionality.<sup>10</sup> Crisis lending was also less successful when it involved areas outside of the Bank's comparative strength: for example, loans emphasizing macroeconomic conditions were less successful than those focused on public expenditures.

Equally, it is important for the Bank to maintain focus on growth and poverty from the outset of a crisis. As noted earlier, previous Bank attention to poverty and social impact showed good results in Brazil and Thailand. But these central aspects of the Bank's mission received insufficient attention in other cases, where Bank support was sprinkled across too many areas. Criticisms of the Bank's crisis lending had already centered on its insufficient emphasis on growth and poverty issues in earlier episodes (adjustment lending in the 1980s). The Bank could play a stronger role than in the past in addressing growth and poverty reduction, its areas of comparative advantage, within a multipartner crisis package.

The customization of policy advice to the specific country context at hand is as important as its technical quality. Effective policy advice requires depth of both country and technical knowledge, and a blend of the two. Solutions tailored to country circumstances were generally more successful than generic advice, even where the latter was state of the art. Some of the advice on financial sector and corporate restructuring issues in Thailand was ineffective (or even counterproductive) because it was not sufficiently grounded in country knowledge.

### **Financing Modalities and Organizational Arrangements**

New instruments, notably programmatic development policy loans, may help address some crisis needs, particularly in the post-crisis recovery. Others, such as the Deferred-Drawdown Options, could be used as precautionary tools, but not in crisis situations. Thus, appropriate instruments for initial liquidity assistance as part of the rescue packages, and the role of the Bank in these packages, still need attention, particularly as the financial share of the Bank in the packages may be even smaller than in previous episodes (for instance, about 5 percent of the package for Hungary).

The Bank's internal organizational arrangements in crisis response situations need attention to ensure preparedness and timeliness of response. Crises put high demands on, and require close coordination among, many parts of the Bank. Organizational arrangements that preserve agility, draw on a broad range of resources, and maintain clear accountability lines are essential. The Bank's response to the Asian crisis during 1997–2000 provides lessons: Regional management was overwhelmed by client country demands and could not mobilize sufficient skilled staff. The Special Financial Operations unit established at that time provided additional expertise, but only on financial (and to some extent corporate) sector issues. It did not cover other areas, including those central to the Bank's mandate (growth, poverty impact). Also, the unit had limited country knowledge and was not accountable to the regions. Bank response to the current crisis could benefit from an arrangement whereby the regions can have easy access to the technical expertise in the Bank's areas of comparative strength, while maintaining their accountability.

### **Coordination among Relevant Development Partners**

A coordinated approach among key partners is crucial for effective interventions. The FSAP program has improved coordination with the IMF on financial sector issues. However, a broader, more intensive effort is called for in

times of crisis, when differences of opinion surface more easily on macro issues (as they did in the late 1990s) and there are tensions between those, structural reforms, and poverty alleviation efforts (as it happened in the Thailand case mentioned above). Furthermore, the European Union now has a major stake in some of the countries, as shown by the recent Hungary package (with the European Union providing more than 30 percent). This suggests a need to cultivate incentives for the Bank to foster cooperation and establish effective lines of communication with partners. Evaluations also suggest that collaboration within the Bank Group (among the Bank, IFC, and MIGA) enhances program effectiveness.

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#### **Notes**

2. *The World Bank in Turkey, 1993–2004: An IEG Country Assistance Evaluation*, IEG 2006 (Chapter 2).
3. In relative terms this was the largest Bank contribution (36 percent of the total support package), as the entire financial support package was \$8.3 billion. The effort failed to prevent the crisis, which peaked in 2001.
4. *Adjustment Lending Retrospective*, OPCS, 2001 (page 2). The so-called adjustment “jumbos” amounted to \$5.3 billion in FY98 and \$6 billion in FY99.
5. The largest rescue package before the one for Korea in 1997 had been the 1995 Mexico package, which also exceeded \$50 billion. Funding for the Mexico package came mainly from the U.S. Treasury and the IMF. The Bank participated later with a \$1 billion financial sector loan; implementation was poor.
6. The Russia Project Performance Audit Report (PPAR) (February 2003) rated the outcomes of SAL I and SAL II unsatisfactory and noted, “The Bank's desire to gain a seat at the policy-making table would have been more efficiently served by helping the IMF review the structural components of its EFF” (page 26).
7. Indonesia PPAR (November 2003) and Thailand PPAR (January 2006). The latter notes, “The action taken in Thailand indicated clearly that the IMF and Bank did not agree up front on some of the most basic principles and advice” and “the way in which crises are managed can compromise essential structural reforms” (page 28).

8. *Financial Sector Assessment Program: IEG Review of the Joint World Bank and IMF Initiative*, IEG 2006.
9. The Thailand PPAR notes, “The failure to factor into the design of the reforms the inadequacies of the Thai legal and regulatory infrastructure led to approaches that may have increased the cost of cleanup.”
10. This does not, of course, imply causality running from the use of well-designed results frameworks to higher success rates for Bank support: instead, it may simply mean that results frameworks are more likely to be drawn up and underpin Bank support in countries that maintain stronger fiscal policy stances and better governance.



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## CHAPTER 3

# IFC Responses to Crises: Findings and Lessons

### **Patterns in Past IFC Crisis Responses**

Over the past 15 years, IFC has invested nearly \$5 billion in 27 of the more than 30 developing countries that experienced financial crises. These investments supported portfolio companies, provided liquidity and equity capital for de-leveraging, modeled corporate and financial restructuring, helped in the resolution of nonperforming assets, and aided the re-privatization of nationalized financial institutions. On average, IFC's investments in a crisis-affected country declined by 40 percent in the year of the crisis relative to the year before and returned to precrisis levels within three years. However, there were significant deviations from the average: IFC investments rose sharply in Korea; stayed roughly constant in Brazil, Russia, and Turkey; and fell in Argentina, Indonesia, Pakistan, and Thailand. IFC's crisis interventions were small relative to the coordinated loan packages of the IMF, World Bank, and other donors.

Past crises helped transform IFC's business model, and IFC now has a broader range of investment and advisory services and is better equipped to respond to private sector needs in times of crises. Only a decade ago, IFC was a project financier working out of Washington and providing mostly nonrecourse dollar financing for real-sector projects. Services demanded by the private sector were different in a crisis: balance sheet restructuring instead of financing new productive assets, corporate instead of project financing, short-term liquidity and trade finance instead of medium- and long-term financing, local currency instead of dollar financing.

Given IFC's focus on project financing, its response to these needs was often slow and

inadequate. The case of trade finance illustrates the point. From fiscal 1998 to 2003, IFC committed 21 trade finance facilities for a total of \$542 million. Of the 21 facilities, 11 were never used, and of the 10 that were used, the average utilization rate was just 27 percent. Motivated initially by the need to respond to crises, over time IFC built up the capacity to provide these services and can no longer be viewed as a traditional project financier. Corporate finance now dominates IFC's business. Within a short period of time, the Global Trade Finance Program has become a significant part of IFC's business. Concerning local currency financing, some capabilities have been developed, but IFC's capacity in this area is still inadequate relative to private sector demand. IFC has also significantly increased its field presence.

Crises also expanded demand for IFC's advisory services—for instance, to improve corporate transparency by enhancing reporting according to international accounting standards, promote better corporate governance practices, enhance risk management practices in financial institutions, help build financial infrastructure including credit rating agencies and credit bureaus, and enhance regulatory capacity relating to new financial instruments and institutions. These activities expanded initially in response to structural weaknesses made apparent by crises (particularly during the Asian crisis) and have become an important part of IFC's advisory services operations.

Some of IFC's post-crisis interventions combined investment and advisory services. IFC's banking investments, for example, were often accompanied by extensive advisory services



programs. Their goal was to help the banks implement a reengineering and corrective action program; upgrade their practices, systems, and technologies to international standards; and improve their internal audit function and management information systems utilization.<sup>11</sup>

### **Areas of Attention for IFC's Current Crisis Response**

Across the various crisis episodes, the nature of crises and the scale and efficacy of IFC's crisis responses have varied significantly. When taking on board the lessons of the past, one needs to account for the differences in the nature of the present crisis relative to past episodes, as well as for the vast changes that can take place as scenarios unfold. The crucial questions would be how the response can have a strong market effect and development impact while making sound business sense. With this in mind, the review of IFC's past responses to crisis suggests that close attention to three general areas may help improve the results of IFC interventions in the proximity of the present crisis: the nature and timing of IFC crisis investments; opportunities and constraints for bigger impact; and IFC's own internal practices, notably arrangements for organizing and conducting its work. As indicated earlier with regard to the Bank, IFC-Bank collaboration can also help results.

### ***Nature and Timing of IFC Investments in the Proximity of Crisis***

Development results were better for projects approved post-crisis than precrisis. According to evaluations, IFC achieved higher development success rates in projects approved post-crisis than those approved pre-crisis—on average a 25–30 percent difference. This finding reflects several factors at work: (i) IFC operations approved before the crisis were not immune to the sharp deterioration in the investment climate as a result of the crisis;<sup>12</sup> (ii) the better results of post-crisis projects are consistent with the finding that improvement in the business environment (represented by beneficial changes in country credit ratings between approval and

evaluation) was a significant determinant of better development outcomes;<sup>13</sup> and (iii) given that IFC's additionality, particularly financial additionality, is stronger following a crisis, the finding supports the thesis that higher IFC additionality is associated with better development results.

Evaluations also indicate that visible, timely interventions can have a strong signaling effect. Key interventions, such as visible restructurings of major industrial clients, first recapitalizations of major banks, and large loan syndications have had strong demonstration effects and positive impacts on market confidence (Korea, 1997; Russia, 1998; Turkey, 2001). This effect is based primarily on IFC's long-term orientation, track record as a reputable and successful investor in emerging markets, and ability to support key restructurings through honest broker leadership in steering committees of creditors and bondholders that can signal turnaround for the entire sector and economy (as in the case of a major bank in Argentina).

The size of the effect depends on the visibility—investments in large key flagship companies of systemic importance for the country such as banks, industrials, or infrastructure companies are likely to send a strong signal. The timing of the intervention is also important—announcement at the peak of market uncertainty can have powerful effects, as in Korea during the Asia crisis, where IFC investment increased dramatically after a period of low involvement. Another example of IFC's catalytic role can be found with respect to Turkey. In addition to restructuring major companies, IFC mobilized \$100 million of its own and commercial banks' funds in the wake of a major financial crisis, which was an important signal to the markets during the recovery of the financial crisis. However, difficult or badly implemented restructuring of IFC's own problem projects has negatively affected its ability to play a signaling role. Some of the difficult restructuring cases absorbed significant IFC resources, attracted negative publicity, and inhibited IFC's ability to be more effective during the crisis (Thailand, 1997).

Although crises may distract attention from longer-term objectives, they can also give rise to opportunities for expansion in strategic priority areas. IFC's priorities include clients in IDA countries, micro, small and medium-size enterprises (SMEs), and environmental and social sustainability. In several respects, crises have largely been MIC phenomena and affected large, first-tier companies to a greater extent than others. As a result, crises have tended to increase IFC's focus on MICs and large, first-tier companies in the crisis-affected countries. Compliance with environmental and social standards suffers when companies are in financial distress.

On the other hand, IFC typically has greater leverage during crisis episodes as compared with normal times to ensure adoption of good environmental and social standards when engaging with new companies. Financial intermediaries that focus on lending to micro-enterprises or to SMEs generally are only mildly impacted by a financial crisis. This is mainly because their clientele is less affected by crisis compared to large corporations. Microenterprises and SMEs generally borrow only small amounts in local currency, do not normally have long-term and foreign debts, are more focused on selling products and services with relatively high demand in the local market, and can adapt more easily to changing market conditions.

In contrast, many large financial intermediaries that lent mainly to large corporations and/or the crisis-afflicted country government experienced financial distress because their large borrowers became illiquid and/or insolvent as a result of the country being in crisis. Small borrowers are, however, disproportionately affected by tightening of liquidity during crises. Thus business and developmental opportunities exist to expand support to micro and SMEs during crises.

### ***Opportunities and Constraints for Bigger Impact***

Crises can create opportunities to reach new clients and to be rewarded for risk taking. In

Indonesia, IFC anticipated banking consolidation and made an early equity investment in a second-tier bank. Five years later, a major foreign bank acquired majority control, resulting in a good financial return for IFC. The decrease in IFC's investments immediately after crises reflects—in addition to factors related to the drying up of new investment opportunities—the dedication of staff time to restructuring existing operations. For, example, in Argentina, Indonesia, and Thailand, IFC restructured investments and injected liquidity. However, difficulties in restructuring absorbed significant resources and negatively affected IFC's ability to play a contracyclical role. Establishing separate work-out and new-business teams could facilitate both restructuring of portfolio companies and response to new business opportunities. Separate teams may also help avoid perceived conflicts of interest and facilitate IFC cooperation with World Bank-IMF teams. In addition, the quality of the bankruptcy regime and its legal enforcement can have a major impact on operations after the crisis. A working bankruptcy regime, by encouraging cooperative out-of-court restructuring efforts among investors, has helped speed recovery. Conversely, weak bankruptcy regimes have been used by unscrupulous shareholders to frustrate recovery efforts and maximize private gains. In restructuring portfolio companies, IFC has on occasion tested the bankruptcy regimes of some crises-affected countries (Thailand and Indonesia). In doing so, IFC has raised awareness of structural issues affecting corporate restructuring and has helped strengthen investors' rights.

An important element of IFC's restructuring strategy was cooperation with the World Bank to focus the government's attention on such systemic restructuring issues faced by the private sector (Indonesia and Thailand, 1997). Unfortunately, in the end bankruptcy regimes did not improve much, which limited general investors' interest and limited the effectiveness of IFC's interventions predicated on the existence of restructuring opportunities (for example, an equity fund was much smaller than originally

expected and ended up invested mainly in growth opportunities, not restructurings).

### ***IFC's Internal Business Practices***

In many cases, the effectiveness of response depends on its being preceded by a progressive sequence of steps to adapt to the outbreak and spread of crisis. Timeliness, size, and relevance to country and business needs were distinctly better when IFC had (i) recognized signs of deterioration in economic conditions, (ii) adapted country strategies to changing circumstances, (iii) adjusted investment approaches by becoming more selective and worked—including through advisory services—with companies less vulnerable to currency fluctuations or with familiar sponsors, and (iv) taken measures to alleviate exposure constraints (Brazil, 2002; Turkey, 2001). Conversely, IFC's effectiveness during a crisis was impaired when it had not adjusted the project mix to economic deterioration (Argentina, 2001).

Protracted periods of economic uncertainty, as in Brazil in the late 1990s and early 2000, gave IFC more time to adjust its approach. In Brazil, where IFC was facing exposure constraints at the time, four equity investments were poorly timed just before the real devaluation in January 1999. Brazil continued to have debt issues for some time after the devaluation and its growth was hurt by the slowdown in neighboring Argentina. The Bank Group's Country Assistance Strategies for 2001 and 2002 reflected Brazil's uncertain prospects.

An exception to the exposure guideline in FY02 allowed IFC to play a larger contracyclical role with 15 new approvals involving \$1.5 billion gross (\$630 million on a net basis). In addition to the change in the exposure limit, the rise in lending reflected the Country Assistance Strategy's shift to a renewed focus to less risky, first-tier companies because of their liquidity, term financing, and export credit needs. Hence, although the exposure guidelines slowed response to the 1997 real devaluation, they in

fact kept IFC from making large investments while the crisis was still going on and direction of macroeconomic policy was uncertain. In effect, the guidelines limited IFC from taking high risks in Brazil in an uncertain environment.

The speed of response is also crucial. IFC made significant efforts to mobilize large amounts of capital through trade facilities, liquidity facilities, and equity funds, but slow decision making prevented timely response to opportunities (Thailand and Indonesia). For instance, IFC was slow to respond to the opportunities in the earlier crisis in Russia. It had fewer staff working on Russia following the 1998 crisis than before and did not have the resources to work with potential Russian sponsors. On the other hand, in Korea, where IFC had little activity prior to the crisis, quick mobilization of resources led to an effective IFC response to the 1997 crisis. IFC has experienced strong demand for local currency financing during crises (East Asia and Pakistan), but its capacity to respond quickly, including by borrowing locally and using the proceeds for on-lending to clients, has been limited.

Forecasting crises is inherently difficult, but good quality of work helps project outcomes. Prediction of the size and timing of a crisis is by nature a very imprecise activity and IFC is subject to many of the same difficulties in forecasting crises as other investors. IFC teams often discussed the possibility of crises (in Turkey, for example, where the economic environment was considered a key risk in IFC projects), but full-fledged scenarios were not typically developed.

Given the inherent difficulties in forecasting crises, good quality of work contributes to the resilience of projects. For instance, there were significant differences in quality among projects in Argentina that broadly mirrored differences in ratings of IFC's upstream preparation activity among these projects. In a similar vein, conservative assessment of the availability of complementary sources of finance, which often dried up in crises, was also important. Projects that were

clearly and adequately documented—a sign of good supervision—were more likely to be successfully restructured (Argentina, 2001). Aggressive and timely loan and equity loss provisions that more accurately reflected the larger risks to IFC’s investment portfolio in crisis countries also helped restructuring by (i) focusing staff attention on improving the portfolio quality and (ii) creating more room and flexibility for negotiations with clients.

Finally, when managed well, IFC collaboration with the Bank helps improve results. Collaboration with the Bank has enhanced the effectiveness of IFC’s intervention by supporting private sector responses to policy measures (Korea). World Bank advice and other interventions have on occasions been informed by IFC’s knowledge of the corporate and financial sectors in a crisis-affected country. IFC’s signaling role can be an important complement to public sector interventions, and its role as creditor and shareholder in key financial institutions or corporations can be a powerful tool in corporate and industry restructuring.

IFC crisis interventions could have contributed to preservation of jobs, but IEG could not find evidence of joint efforts by the Bank and IFC on employment and poverty during crises. Bank-IFC collaboration has been modest in general and not any better—and sometimes worse—during past crises. On occasion, IFC cooperation with the Bank and the IMF was impaired by perceived conflicts of interest on the part of IFC, especially in highly publicized commercial disputes involving IFC’s clients. Large-scale, wholesale interventions through funds or facilities gave IFC a seat at

the table and facilitated IFC-Bank dialogue (trade finance facilities in Korea and Argentina).

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#### Notes

11. A lesson learned in this experience was the importance of determining the true level of client commitment to improving corporate practices, and this may be difficult to assess in a crisis situation. In Russia, for example, an IFC advisory services program was implemented under the auspices of the World Bank’s Financial Sector Development Project. The program was expected to result in considerable transfer of technology and international best practices to a Russian-owned operation, increasing its efficiency, improving service to clients, and helping develop local managers and staff. In the event, the advisory services program was not successful, as the Russian bank lacked true commitment, undertaking it more to give IFC the assurances required to obtain the much-needed loan financing.
12. The Asian crisis, for example, can be isolated as a primary reason for the significant deterioration of development, business, and investment outcomes.
13. Of 37 projects approved in the three years following a crisis in major MICs (Brazil, Indonesia, Korea, Mexico, the Philippines, Russia, and Turkey), 67 percent achieved high development results (compared to 61 percent otherwise). Projects in Brazil, Korea, and Russia were particularly successful. In contrast, the performance of the 96 evaluated projects that were already under way when a crisis hit (in Argentina, Brazil, Indonesia, Mexico, the Philippines, Russia, Thailand, Turkey, and Uruguay) were much weaker. Of these projects, 54 percent achieved high development outcome ratings, compared to 64 percent for non-crisis-exposed projects.



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## CHAPTER 4

# Lessons from MIGA Activity during Crises

Twenty-five percent of the total volume of MIGA guarantees issued between 1995 and 2002 were in crisis-affected countries, including guarantees issued during crisis episodes in Argentina, Brazil, Pakistan, Indonesia, Ecuador, Russia, and Turkey. Most of MIGA's guarantees in crisis-affected countries were for financial sector and infrastructure projects.

Political risk is typically heightened during crises, over concerns that host governments may respond to stress in public finances by revisiting their contractual commitments or by imposing transfer and convertibility restrictions to stem an outflow of reserves. Similarly, there are concerns that unpopular economic measures will increase the likelihood of civil disturbance.

The overall volume of MIGA guarantees grew during crisis episodes in Russia, Turkey, and Brazil, and there is some evidence that cancellations of active contracts tended to diminish in difficult economic times. This may suggest that the demand for political risk cover for existing investments is particularly strong during economic crises. MIGA's Convention however, does not allow it to cover existing investments, despite the positive impact of such cover on job preservation. However, if risk perceptions lead investors to pull back, political risk insurance demand may decline, as happened with the volume of MIGA guarantees in the Asian crisis years and in Argentina, where investors withdrew following government measures perceived as expropriatory.

Crises have tested MIGA's risk mitigation capacity in several ways. Two of the three claims in MIGA's entire history were paid during crisis episodes:

MIGA paid a claim for East Java Power Corp. (Indonesia), one of several power projects cancelled by a presidential decree in the late 1990s. The second claim was for a logistics services project in Argentina in the aftermath of that country's financial crisis. However, crises have also provoked several preclaim situations, which MIGA successfully mediated.

The former case suggests that infrastructure projects, when inadequately structured or awarded in a nontransparent manner, may be particularly vulnerable to political risk events during crises, as their legitimacy is questioned, guaranteed revenue/off-take contracts cause fiscal distress for the government, or politically untenable tariff increases are introduced. It also highlights the importance for large public-private infrastructure projects to be transparently and competitively bid and to allow for renegotiation on mutually acceptable terms, to insure long-term political sustainability in the face of a crisis. Evaluative findings also emphasize that the consistency of guaranteed investments with World Bank country strategies and sector policies helps to mitigate risk and is key to Bank support in the case of claim situations.

In the financial sector, an evaluation found that MIGA's intervention supported crisis recovery by underwriting credit when market conditions were adverse and by providing positive signaling effects in the aftermath of crises. MIGA-supported foreign banks also introduced specialized products, good-practice risk management policies and innovation to local banking systems, increasing their resilience to future crises. Evaluation findings rated their development impacts as satisfactory.



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## CHAPTER 5

# Conclusion

As the most serious crisis since the Great Depression of the 1930s, the current financial crisis is in many respects unprecedented. The economic contraction that it has fueled is also rapidly increasing unemployment worldwide, casting millions of households into absolute poverty. Provision of crisis support to low-income countries and MICs by the World Bank Group, particularly in concert with other development partners, can help mitigate the severity of the adverse social impact of the economic slowdown. At the same time, resources mobilized by the World Bank Group, always limited in the past, are even more constrained today. Furthermore, Bank Group resources have traditionally leveraged large volumes of complementary resources from private and voluntary sector partners as well as

official development partners; under the full impact of the crisis, there is a major risk that such sources will curb new flows, in some cases severely. Owing to the possible reduction in leveraging power that international financial institutions may experience, as well as to the increased opportunity cost of its resources in crisis times, there is a special premium on getting the most from Bank Group crisis support in terms of development effectiveness. Because every crisis has its unique features, the lessons of evaluation from past experience cannot amount to very precise guidance for delivering effective crisis support. However, they can and do point to crucial factors that may make a difference in how effective today's crisis response can be.







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