IEG WORLD BANK
INDEPENDENT EVALUATION GROUP

# Approach Paper
# An IEG Assessment of the World Bank Group's Response to the Global Economic Crisis: Phase II

## INTRODUCTION AND BACKGROUND

1. The World Bank Group (WBG) has been centrally engaged in combating the global economic crisis, which has adversely affected many developed and developing countries over the past three years. New financing provided by the World Bank and IFC over the two-year period FY09 and FY10 spiked to $66.9 billion per year, compared to an average of $35.7 billion per year over the preceding three years. Much of the response was focused on middle-income countries (MICs): combined IBRD and IFC financing to IBRD countries increased from a pre-crisis annual average of $19.2 billion to an annual average of $44.8 billion during the two-year crisis response period, while the volume of IDA financing rose more modestly from $11.4 billion to $14.6 billion over the same period. For MIGA activities, the volume of MIGA guarantees issued in IBRD countries averaged $1.3 billion in FY09, compared to a rolling average of $1.2 billion during the FY06-10 period. Guarantees issued by MIGA in IDA countries during FY09 amounted to $108 million, lower than the five-year rolling average of $368 million.[1]

2. In close parallel, IEG embarked on a real-time evaluation of the Bank Group's role in providing crisis support. Its first major report under this evaluation was presented to the Bank's Board in October 2010.[2] The report focused largely on the Bank's readiness and swiftness of response, the relevance of its choice of interventions, and the character of the response, as well as its implementation, in terms of speed, internal organization, and coordination. The report also discussed early outcomes. It was intended that a more detailed—and of necessity more selective—assessment would follow in a second phase of evaluation.

3. This Approach Paper (AP) outlines the planned coverage of the Phase II evaluation (henceforth "the evaluation"), which will complement work already undertaken. Two sets of factors have shaped the planned coverage and scope of the evaluation. The first encompasses the (most frequently recurring) views of CODE/Board members, and in some cases Bank Group management and country or development partner stakeholders, notably in response to the engagement and discussions around the Phase I report. For instance, given the frequency with which Board members raised the question of whether the Bank Group had an adequate range of lending instruments specifically to respond to a global economic crisis, IEG plans to

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[1] MIGA activities are not aggregated with Bank and IFC funding volumes, as guarantees are not equivalent to direct funding.

[2] See IEG (2010). The Phase I report was preceded by a series of IEG briefs summarizing findings of the evaluation as they were generated (see in particular IEG [2009c]). In turn, this was preceded by an IEG brief assessing the Bank Group's response to past episodes of crisis, such as the East Asian, Mexican, and Russian crises of the late 1990s (see IEG [2008])

examine this issue, albeit in a strictly circumscribed way (see para. 5). Similarly, in response to discussions with management, IEG will incorporate a discussion of the wider context of the WBG response, relative to other IFIs, and reflect on emerging lessons with regard to effectiveness, at the same time situating these lessons more squarely in the global context. The second set of factors includes areas flagged in Phase I of the evaluation work as raising potential concerns and calling for vigilance on the part of Bank Group management. For example, the Phase I finding that crisis-response interventions by the Bank in the financial sector exhibit some weaknesses has (in part) prompted the more detailed focus on WBG financial sector interventions that is planned in the evaluation.

4. It is planned that the evaluation will begin by providing a multi-faceted assessment of the impact of the crisis and resulting stress on WBG client countries. In some countries, the preceding food and fuel crises sometimes make it difficult to isolate the impact of the global economic crisis, and this is reflected in indicators of rising stress even before the period of the global economic crisis. The assessment will go beyond changes in GDP growth alone as a measure of crisis impact to differentiated indicators of stress in countries' macroeconomic, fiscal and financial systems, reflected in variables such as movements in trade and exchange rates, public expenditure and public debt, and indicators of financial distress—stock market indices, bond spreads and credit growth (see Table 1 below). It will also look at human and social indicators of the crisis, as well as Bank Group efforts to address them, although information on the social impact of the crisis, for example on employment and poverty, is not widely available.

5. Based on assessments of stress during the crisis, the evaluation will examine overall patterns of WBG support during the crisis, juxtaposing various dimensions of stress/impact on client countries with WBG financial support during the crisis-response period, to evaluate the extent to which support was directed at areas where the payoff was high—in terms of restoring stability, ensuring sound medium-term growth and protecting the vulnerable. For IFC, the allocation of financial resources in response to the crisis—beyond new investments alone—will be examined in terms of the change in the value and composition of the outstanding portfolio of IFC investments, while for MIGA the focus will be on guarantee commitments and management of the existing guarantee portfolio over the crisis period. The assessment of stress will cover all WBG client countries, including those that may have been eligible for crisis support but did not receive any. The analysis of the pattern of allocation of Bank Group support through the lens of vulnerability and impact will also encompass a limited overview of: (a) the suitability of currently available instruments for the preservation of capital headroom; (b) the implications of the flat real administrative budget, notably against a backdrop of significantly larger volumes of financing; (c) the sector/thematic composition of WBG support; and (d) the quality of coordination across the WBG, and with other development partners, in planning and delivering crisis-related support.

6. The second part of the report will take a more in-depth look at WBG financing and analytical/advisory support in three key areas of intervention during the crisis period—

namely the financial sector, public finance, and social protection.[3] As indicated earlier, however, an overview of the sector allocation of WBG support in each institution will be provided. For the IFC, an analysis of loans, guarantees and investments undertaken through its crisis-related instruments will also be included.

**Table 1. Bank Group Client Countries During the Global Crisis[4/] Ranked by Stress Indicators**

| | Decline in Real GDP Growth[2/] | Exchange Market Pressure | | Financial Market Stress | | | Banking Sector Stress | | Credit Crunch | Social Protection | | | Other Macroeconomic Indicators | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Foreign Exchange Rate[1/] | Foreign Reserves[1/] | Stock Market Returns[1/] | Stock Market Volatility[1/] | EMBI Spread[1/] | Liquidity Support[1/] | Deposit Loss[1/] | Private Credit Growth[1/] | Real GDP per capita[2/] | Unemploy-ment[2/] | Remit-tances[1/] | Fiscal Deficit as % of GDP[3/] | Debt as % of GDP[3/] |
| 1 | Ukraine | Ghana | Sudan | Ukraine | Nigeria | Ukraine | Turkey | Barbados | Latvia | Latvia | Mongolia | Croatia | Maldives | Liberia |
| 2 | Hungary | Congo, Republic | Pakistan | Bulgaria | Thailand | Pakistan | Romania | Latvia | Samoa | Chad | Latvia | Kazakhstan | Ghana | Lebanon |
| 3 | Mexico | Ukraine | Jamaica | Bosnia Herze-govina | Bulgaria | Hungary | Hungary | Montenegro | Sri Lanka | Ukraine | Mexico | Cambodia | Iraq | Iraq |
| 4 | Grenada | Pakistan | Congo, Republic | Romania | Kenya | Bulgaria | Kazakhstan | Moldova | Kazakhstan | St. Lucia | Turkey | Albania | India | Guinea-Bissau |
| 5 | Jamaica | South Africa | Honduras | Latvia | Latvia | Poland | Brazil | Honduras | Nicaragua | Mexico | Costa Rica | Brazil | Lebanon | Grenada |
| 6 | Latvia | Lesotho | Grenada | Serbia | Croatia | South Africa | Nigeria | Tajikistan | Mexico | Hungary | Hungary | Mexico | Jamaica | Mauritania |
| 7 | St. Lucia | Jamaica | Solomon Islands | Vietnam | Indonesia | Tunisia | Ukraine | Ukraine | Honduras | Grenada | El Salvador | Hungary | Yemen | Guinea |
| 8 | Barbados | Ethiopia | Maldives | Croatia | Mauritius | Vietnam | Lao PDR | Mongolia | Montenegro | Jamaica | Ukraine | Bosnia and Herzegovina | Latvia | Togo |
| 9 | Samoa | Botswana | Ethiopia | Poland | Peru | Kazakhstan | Moldova | Azerbaijan | South Africa | Barbados | Georgia | Yemen | Egypt | India |
| 10 | Moldova | Belarus | Sri Lanka | Hungary | India | Serbia | Armenia | Albania | Barbados | Turkey | Vietnam | Romania | Barbados | Egypt |
| n | 108 | 102 | 39 | 39 | 97 | 30 | 75 | 99 | 100 | 106 | 54 | 54 | 103 | 82 |

[1/] Percentage change in pre-crisis average (CY2005-CY2007) vis-à-vis crisis average (Jul 2008- Dec 2009).
[2/] Percentage change in pre-crisis average (CY2005-CY2007) vis-à-vis crisis average (CY2009).
[3/] Average of CY2008-CY2009, using IMF WEO data.
[4/] Countries that borrowed <$10 million during FY09-F10 are excluded.
*n* Number of countries, out of 109 clients meeting the criteria.
*Sources: World Bank, IMF, Bloomberg, Data Stream*

*What Approach and Methodology will be used?*

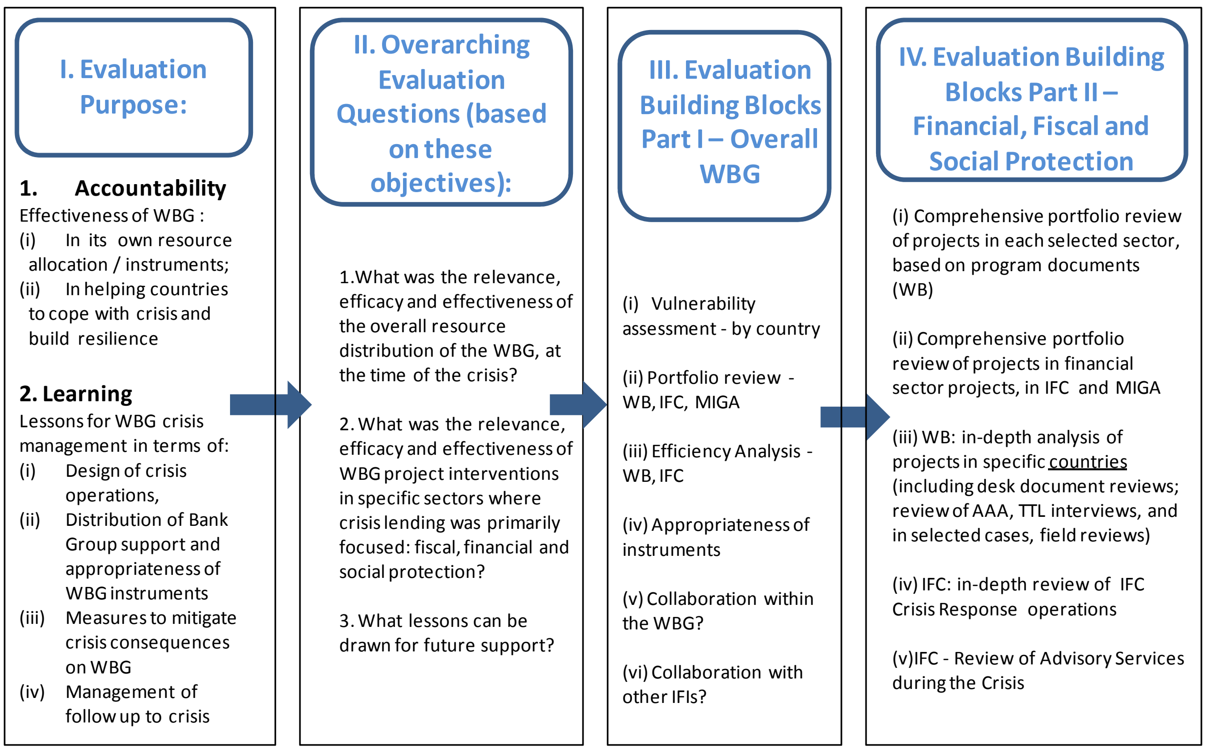
7. To the extent possible, the objectives, intended results, and actual results achieved of WBG support will be analyzed in terms of their appropriateness (relevance, including errors of omission and commission) for the situation facing the client during the crisis through the present day. The challenges of relatively short elapsed time notwithstanding, results achieved will be assessed relative to those that were targeted at the outset, including unintended impacts. In the same vein, the analysis will also focus on the likelihood of specific interventions generating the results sought, as well as the evaluability of the interventions and their outcomes, including the quality of design and implementation of the monitoring and evaluation (M&E) frameworks for these interventions.

8. As with most IEG evaluations, methods will be mixed. One set of methods will involve a very streamlined review of the entire portfolio of operations under each area of focus, based on program or project documentation. A second set of methods will consist of

[3] The recent IEG Results and Performance Report noted that the biggest *increase*s in activity in the crisis period were in social protection, followed by environment, and then economic policy and finance and PSD.

in-depth reviews of relevant operations in a purposively selected sample of countries. These in-depth reviews will be primarily desk-based, and will include a review of the strategic context for the client as well as of underlying analytical and advisory work, supplemented by interviews with staff and managers and review of implementation progress (e.g., through Implementation Status Reports, or ISRs). Beyond this, a limited subset of in-depth case study countries (no more than ten for all three pillars taken together) will be subject to field visits. For these cases, reviews of documents and interviews of DC-based WBG staff will be complemented by interviews of field-based Bank Group staff and in-country stakeholders. The approach to the evaluation and its building blocks are detailed in Figure 1.

**Figure 1. WBG Response to the Global Economic Crisis - Phase II: Evaluation Design and Building Blocks**




9. Sample selection for detailed country case reviews will be based on purposive (stratified) sampling, following a common broad logic, under each of the three pillars. The overarching aim is to cover WBG interventions across a spectrum of affected countries and using a range of instruments. Four broad selection criteria include: (i) a range of aspects of crisis-induced impact or stress at the country level, in order to illustrate Bank interventions in more as well as less affected countries; (ii) a range of different crisis-related operational designs, with DPOs featured prominently in addition to investment projects, where relevant, including operations that are entirely focused on a given sector (with financial, public finance, or social protection objectives) and those covering more than one sector; (iii) a range of countries in terms of the size of operations, in contrast to an approach where the focus is on the largest projects alone; and (iv) inclusion of every region in which the Bank Group does business, with oversampling of LAC and ECA given that these regions have the largest numbers of operations in which crisis response features as an explicit objective. Finally,

selection of a small number of countries for field visits will aim to provide illustrative vignettes of differences in the nature of country circumstances and Bank Group interventions, not to provide a representative sample.

### THE OVERALL BANK GROUP RESPONSE: A CLOSER LOOK[4]

10. Questions to be examined in Part I of the evaluation, their relation to the overall evaluative framework, and links to specific evaluative building blocks are summarized in Figure 2 below.

**Figure 2. From Evaluation Building Blocks to Evaluation Questions: Part I - Overall WBG**

**Building Blocks to Questions: Part I – Overall WBG**

| Areas Examined | Illustrative Questions in Each Area |
|---|---|
| (i) Vulnerability assessment - by country | Relevance of overall WBG resource allocation during the crisis - Was resource allocation in line with needs? |
| (ii) Efficiency Analysis - WB, IFC | Efficiency of WBG during the crisis – How were administrative resources managed? What are the lessons for the future? |
| (iii) Appropriateness of instruments | Efficacy of WBG during the crisis and for the medium term - Did WBG have / use the right instruments? Were they able to achieve desired results? (limited analysis) |
| (iv) Collaboration within the WBG? | Relevance of WBG Interventions – were operations of members of the WBG complementary? Were they complementary to / coordinated with interventions of other IFIs? |
| (v) Collaboration with other IFIs? | |

*Patterns of Stress or Crisis Impact*

11. A multi-faceted approach to gauging the extent to which countries were affected by the global economic crisis, juxtaposed against earlier conclusions based only on loss of GDP growth, is likely to reveal the diversity of crisis impacts on various Bank Group client countries, as well as the need for diversity in response, based on the countries' initial conditions. The various dimensions of impact or stress on client countries will also give an indication of aspects of stress or crisis impact on IFC and MIGA clients.[5] For instance, were the financial institutions that IFC and MIGA supported severely affected? Did they belong to countries or sectors that posted particular instability or vulnerability? To what extent did IFC/MIGA support pre-existing clients that were subject to stress or new agents in affected countries or sectors?

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[4] The analysis proposed for this section will recognize differences in relevance across members of the WBG. Not all issues will be equally relevant for the WB, IFC and MIGA. For example, it is recognized that the issue of capital adequacy is relevant to the World Bank and the IFC, which are currently capital-constrained, but not to MIGA, which still has substantial operating capital (risk-bearing capacity) available, its operations having grown little in recent years.

[5] With regard to MIGA, it is recognized that MIGA's mandate is to provide support on a *cross-border* basis and that impacts affect institutions in both host countries and investor countries.

*Portfolio Review – Allocation of Bank Group Support*

12. Allocation of Bank Group support will be juxtaposed with the analysis of stress or impact, looking at the breakdown of support by countries. An overview of allocation by sectors/thematic areas will also be presented—noting *inter alia* that one operation can cover several sectors or areas. Under the Bank's country-based model, resource allocation is driven not only by crisis impact or country needs but also by country demand, as well as by other factors, such as agreement on the overall policy stance, assistance from other bilateral and multilateral sources, etc. What allocation outcomes have been observed and how do they relate to countries' stress or longer term needs? Does the conclusion from the phase I evaluation work, to the effect that allocation of support across client countries/companies roughly matched the pattern of impact or stress on clients, continue to hold when measured against a wider range of relevant indicators of crisis? Does a similar match emerge for IFC and MIGA support? Did their operations take place in host countries characterized by crisis impact on this wider basis, recognizing also that IFC/MIGA project selection criteria also require client financial soundness? In particular, were there clear cases of stressed or affected clients that did not receive Bank Group support? What were the reasons? What differential patterns obtain across the three WBG agencies?

13. In the case of the IFC, how did the constrained capital environment, driven in part by its transfer of net income to IDA, impact upon its choice of activities to support? Can IFC's capital constraint help explain the creation of entities such as IFC's asset management company? How did active portfolio management at IFC add value to existing clients during the crisis? Can its impact be quantified? With respect to MIGA, how were new business development, reinsurance, and/or management of outstanding guarantees re-oriented to respond to the crisis, and what was the impact of these activities in crisis-affected countries?

14. One caveat to such an analysis is that the extent to which countries had access to financing from other sources (whether IFIs such as the IMF, regional development banks, or bilateral partners) or countries where Bank Group support was provided in the form of advisory services instead of financial resources, preclude the existence of a simple relationship between country needs and allocation of Bank Group resources. Nevertheless, the analysis could at least identify outliers—countries where there was little evidence of crisis impact that received Bank Group support, as well as, conversely, countries that appeared to require support where the WBG did not provide resources. Another caveat is that the counterfactual is not evident—indeed, there are several possible counterfactuals. Additionally, in some countries that appeared less stressed, there may have been greater signs of distress in the absence of Bank Group intervention.

*Efficiency of Bank Group Operations during the Crisis Period*

15. The analysis of the overall pattern of response will selectively address questions related to the efficiency of Bank Group lending during the crisis period. What are the implications of the flat administrative budget observed by the Bank? Can the implied efficiency gains during the crisis period be sustained without adverse impact on lending quality, project pipeline and knowledge? In the case of IFC, issues to explore may be rather the implications of shifting staff resources towards formulating new initiatives, portfolio supervision and taking decisions about new directions, in the context of an overall hiring

freeze. MIGA's administrative budget in the crisis period was not flat, but grew slightly, and represents an outlier in terms of resource availability to support its desired crisis response.

*Appropriateness of Bank Group Instruments in a Crisis*

16. Apart from overall resource allocation across countries, did the Bank Group have appropriately designed instruments to respond to the crisis? The evaluation will examine this question for IBRD instruments in a limited way. It will ask how pricing and maturity of financing support may have affected demand and thus *ex post* allocations across countries. The longer maturity of Bank instruments relative to other sources of funding that borrowing countries can access effectively implies lower rates, even if rates are nominally similar to other sources. If less favorable terms had been extended to borrowers, how would this have compared with capital from other sources? Just as importantly, how much headroom might have been preserved to provide for possible future "spikes" in lending, should there be an imminent relapse? An examination of these issues will also take into account recent modifications to the IBRD instruments since the onset of the crisis.[6] At IFC, there was a large number of new instruments and new initiatives, and in several cases it took time to secure their effective functioning.

*Bank-Group-wide Coordination and Synergy (With a Special Focus on the Financial Sector)*

17. WBG management made a conscious effort to encourage and improve collaboration across the Group, especially in finance and private sector issues, by appointing, prior to the crisis, a Joint Vice President for Financial & Private Sector Development, reporting jointly to the Bank and the International Finance Corporation. A step towards the evaluation of the respective roles of the public and private arms of the WBG during the crisis will be to look at the extent of collaboration among WBG agencies, in selected thematic areas as well as in individual countries. Thematic areas of relevance will include in particular aspects of the financial sector work such as advisory work for risk management, bank rescues and restructuring, and possibly guarantees. A related country focus could include 3-4 ECA countries, where all WBG agencies were actively engaged at the time of the crisis.

*The Bank Group, Other IFIs, and Emerging Lessons*

18. A related theme will be the role of the WBG in the context of external partnerships, notably the Joint IFI and Vienna initiatives. At the Regional level, IFC and MIGA have participated in joint initiatives with other IFIs in Europe and Central Asia, Latin America and the Caribbean, and Sub-Saharan Africa. Under the joint IFI Action Plan for Central and Eastern Europe, launched in February 2009, EBRD, the European Investment Bank (EIB), and the WBG pledged collectively 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

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[6] A related question regarding Bank instruments, recently raised at the Bank's Board, related to the value-added of several special facilities made available by the Bank, such as the Vulnerability Financing Facilities (Global Food Crisis Response program and Rapid Social Response program). However, the review of instruments presented here is selective in scope and will not include an examination of these facilities.

initiatives, to complement its traditional investment and advisory services in the region. As part of the same initiative, MIGA pledged to provide up to $2 billion in political risk insurance for cross-border investments of financial institutions to recapitalize or provide liquidity to subsidiaries.

19. Parallel initiatives were launched for other regions, including the Multilateral Crisis Initiative for Latin America and the Caribbean, launched in April 2009, and the Joint IFI Action Plan for Africa, launched in May 2009. These initiatives would also be explored, to the extent that data are available, to examine the extent to which WBG institutions fulfilled their commitments and contributed to the rescue packages.

20. IEG will also briefly explore parallel evaluations, where available, in terms of the WBG crisis response compared to other IFIs / MDBs, and synthesize emerging lessons with regard to effectiveness of the crisis responses, mindful of underlying IFI differences in institutional mandate and reach. To the extent possible, it will situate these lessons more squarely in the global, and relevant regional, context, for example, looking at how different IFIs addressed issues such as whether developing countries were better positioned in this crisis because of past preparedness with regard to the financial sector; how public sector expansion is being matched by private sector stimulus which has to lead growth; how the rise in fiscal deficits is being matched by better use of funds; and how well social protection is being built in.

### ANALYSIS OF SECTOR INTERVENTIONS

21. Part II of the evaluation will examine specific issues related to the Bank Group's interventions in the area of financial sector interventions, fiscal support and social protection. Figure 3 describes questions addressed, derived from the overarching principal questions and the evaluation building-blocks laid out above in Figure 1.

**Figure 3. From Evaluation Building Blocks to Evaluation Questions: Part II - Sector Analysis**

**Building Blocks to Questions: Part II – Financial, Fiscal and Social Protection Sectors**

| | |
|---|---|
| (i) Comprehensive portfolio review of program documents in each selected sector, for WB<br><br>(ii) Comprehensive portfolio review of projects in financial sector, in IFC and MIGA<br><br>(iii) WB: in-depth analysis of projects in specific countries (including desk document reviews; review of AAA, TTL interviews, and in selected cases, field reviews)<br><br>(iv) IFC: in-depth review of new IFC Crisis Response instruments and Advisory Services | • Relevance - What results did the operation aim to achieve? Were the objectives / design aligned with needs? How consistent were the results with overall country strategy, also, with preceding diagnostics?<br><br>• Efficacy - Were the instruments selected for the operation appropriate for the achievement of expected results? To what extent did the results framework target variables under Bank Group control?<br><br>• Effectiveness: To what extent did the (immediate) results which the operation aimed to achieve actually materialize? What is the likelihood of the medium and long term sustainability of results? |

### BANK GROUP SUPPORT IN THE FINANCIAL SECTOR

*Overall Patterns*

22. The origins of the global economic crisis were financial in nature. Through the effects of a series of interlocking exposures, combined with less-than-sound financial sector

practices, the repercussions were felt first by a handful of countries, especially East European countries such as Latvia and Ukraine, in the form of financial sector instability. Later, however, countries with better financial sector fundamentals, in multiple regions, also experienced distress, primarily through the global credit squeeze. Turkey, Morocco, Colombia and India are examples. Bank intervention in the financial sector in crisis countries varied depending on the nature of the impact of the crisis, reflecting differences in domestic macroeconomic and financial sector conditions as well as their degree of financial sector openness and linkage to more affected developed countries. The Bank's response in many countries combined financial sector support with macro or fiscal support, as well as support to social protection and other sectors. Of the 871 loans, amounting to $107.7 billion in commitments, made by the Bank over the crisis period (FY09-10), some form of support to the financial sector was present in over a hundred loans, in 57 countries. However, most loans were multi-sectoral and many included elements other than finance. Of these operations, there were 78 loans that had 20 percent or more financial sector lending; only 35 had over 50 percent of their focus on the financial sector. Lending to the financial sector during FY09-10 amounted to some 12 percent of total Bank lending. At IFC and MIGA, the proportion of operations in the financial sector was higher. Of a total of $23.2 billion in new investments at IFC over the period FY09-10, as much as $12.7 billion, or 54.7 percent, was in the financial sector. During the period, IFC Advisory Services comprised 1608 active projects, including projects active in each fiscal year, with an approved value of $1.8 billion and total expenditures of $559 million. Twenty-nine percent of these expenditures were for Access to Finance projects.

23. For the purposes of the evaluation, financial sector interventions for the Bank are defined as those that had *some* percentage of the operation coded as relevant to the financial sector, although more specific analyses of projects with high or medium levels of financial sector content would also be undertaken. At IFC, projects defined as those in the financial sector require that the beneficiary be registered as a bank or finance company. MIGA financial sector guarantees support investments in general banking operations, leasing, mortgage lending, investment/pension funds, etc.[7]

*Comprehensive Portfolio Review – The World Bank*

24. The overview of Bank interventions in the financial sector will review such questions as the following. What is the overall profile of support in this sector in FY09-10, placed in historical context? How does this profile vary across the Bank Group agencies? For the Bank and IFC, how is the overall response divided between financial support and AAA/Advisory Services? The necessary information will be collected through a brief review of the entire population of financial sector operations for the Bank, IFC and MIGA committed during FY09-10. Because the entire population of projects with any financial sector content includes just over a hundred projects, the portfolio review will be limited to a range of descriptive fields (nature of instrument, financial sector content, nature of

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[7] At MIGA, the sector classification of guarantee projects looks at the end-purpose of the guarantee, and thus includes only MIGA guarantee projects whose end-purpose is in the financial sector, i.e., general banking operations, leasing, mortgage lending, investment/pension funds, etc.

components), as well as a highly circumscribed number of evaluative questions limited only to those that can be extracted from a brief desk based review of program documents.

*In Depth Analysis – The World Bank*

25. The overview of the portfolio of operations will be combined with a more detailed investigation, undertaken on a sample of 15-20 countries, which will cover specific questions in greater depth, as well as attempt to review the extent to which results have been achieved or appear to be achievable. Criteria for country selection follow the principles described above (para. 9). In this case, the sampling will *inter alia* seek to capture a spectrum of financial sector distress and Bank interventions. The more detailed (or in-depth) reviews will also include prior FSAPs and risk management exercises, and the overall financial sector program within the country context.

*Questions to be Addressed in the WB Financial Sector*

26. Given large number of the operations approved over the crisis period that are still ongoing—implying an absence of the conventional primary (self-)evaluation material—the in-depth analysis will focus principally on whether the operation constituted an appropriate response to the particular circumstances of the country's financial sector. The associated questions will include those set out below.

- What results did the operation aim to achieve, given whatever backdrop of financial sector issues the country was facing during the crisis period? For instance, for those countries facing a banking system crisis, where solvency of banks was an imminent question, objectives may have included: helping the government to form an operational stabilization plan; assisting with financial institution diagnostics of vulnerability; assisting with the resolution of insolvent institutions; designing and implementing central bank liquidity windows; and protecting consumers in the context of the crisis (e.g., financial system guarantees or deposit insurance). For other countries, where the effects of the crisis were manifested more through a liquidity crunch, inputs may have included measures to expand access to credit, such as lines of credit. Were such measures appropriately targeted and were there mechanisms in place to ensure timely disbursement? The analysis will also cover whether interventions addressed short-term or long-term issues faced by the sector (for example, addressing under-capitalization of distressed banks is a short-term measure, improving the quality of banking supervision is long-term).

- Were the results sought by the operation appropriate in light of the state of the financial sector in the client country? Did measures taken under the operation reflect the analysis of stress and crisis impact, as well as prior analytical work? How tightly linked were the measures taken and the results sought? To what extent did the results which the operation aimed to achieve actually materialize? For instance, in the short term, did Bank interventions help to stabilize domestic financial institutions and markets and prevent an acceleration of the crisis? What is the likelihood of the long-term sustainability of results? In the medium term, are financial institutions in the country being strengthened as a result of WBG interventions? Has financial stability and resilience to future crises improved, through the strengthening of financial regulation, supervision and financial infrastructure?

*IFC's Financial Sector Interventions during the crisis – An Overview*

27. IFC financial instruments span a wide range—trade finance facilities, loans, quasi-equity, quasi-loans, equity, guarantees, and client risk management. IFC invested $21.6 billion between September 2008 and June 2010, and around 55 percent of IFC's total commitments in this period ($11.8 billion) were in the financial sector, compared to only 9 percent of its portfolio in FY02. These investments have been divided between loans (23 percent), equity (21 percent) and guarantees (49 percent). Due to their prominence in terms of IFC's crisis engagement, IEG will review the quality of IFC investments in the financial sector over the crisis period to assess their contribution to crisis resolution and/or the better functioning of financial markets. The sample proposed for review consists of 50 investments accounting for 19 percent of the total of 266 investments in the financial sector.[8]

28. The evaluation will investigate the objectives of IFC financial investments and what they sought to achieve, based on a modified version of its standard evaluation methodology, adapted to capture dimensions important to the crisis such as relevance, speed of response systemic impact, outputs and preliminary outcomes, and IFC's role and contribution.[9] A preliminary question is the extent to which, in accordance with its founding articles, investments have been made in viable private sector projects in developing countries for which "sufficient private capital is not available on reasonable terms". What was the additionality of IFC's interventions? To what extent was IFC able to engage new clients or were its investments geared primarily towards stabilizing the positions of existing clients? What was the nature of the financial institutions with which the IFC engaged? To the extent that the IFC engaged with private banks, how were these selected during the crisis period, in terms of their likelihood of long-term viability? IFC's partnerships with the world Bank, IMF, other IFIs and donor agencies will also be reviewed.

*IFC's Global Crisis Response Initiatives – An Overview*

29. Owing to concerns about capital headroom during the crisis, IFC embarked on an ambitious program to leverage crisis-response support on its own account through new platforms, partnerships and global initiatives, in the areas of trade, microfinance, infrastructure development, bank capitalization, nonperforming assets, SME finance and Export Credit Agencies Finance.[10] The IEG Phase 1 WBG Crisis Response evaluation report determined that the Global Trade Liquidity Program (GTLP) and Global Trade Finance

[8] Excluding GTFP and GTLP projects and projects under other relevant crisis response initiatives; the latter will be 100 percent covered by the review.

[9] The Methodology is based on *Annex 2: Project Evaluation Methodology – Investment Operations* in the *Independent Evaluation of IFC's Development Results 2009: Knowledge for Private Sector Development – Enhancing the Performance of IFC's Advisory Services*, IEG-IFC, February 20, 2009.

[10] IFC/R2009-0009 – *Proposed Investment in IFC Microfinance Liquidity Facility (MLF) Initiative*, January 15, 2009. IFC/R2008-0347 – *World Region Proposed Increase and Modification of Investment in Global Trade Finance Program (GTFP IV) to Provide Emergency Relief in Response to the Global Financial Crisis,* December 8, 2008. IFC/R2009-0052 – *World Region Proposed Investment in Global Trade Liquidity Program*, March 19, 2009. IFC/R2008-0345 – *World Region Proposed Investment in Infrastructure Crisis Facility*, December 8, 2008. IFC/SecM2008-0075 – *Advisory Services Financial Crisis Response Note*, December 8, 2008. IFC/R2008 -0346 – *Proposed Investment in Bank Recapitalization Fund*, December 8, 2008.

Program (GTFP) were moderately successful, while the success of the Bank Capitalization, Microfinance, Infrastructure, and Debt and Asset Recovery initiatives was very limited. The SME Finance and Export Credit Agency Finance initiatives were not addressed in the IEG Phase 1 report. IEG proposes to take a closer look at the global initiatives. Such efforts are also ongoing in IFC, as discussed in its recent Lessons Learned report.[11]

30. The first programs examined will be the flagship initiatives GTLP and GTFP. Access to trade finance was reduced during the crisis by an estimated $100-300 billion, and availability was limited, at higher prices (double or triple in some markets), and shorter tenors. The creation of the GTLP was designed to respond to liquidity constraints in emerging market banks. Risk exposure issues were addressed by the GTFP. One question is, while the IFC trade initiative might have been relevant for the short window between September 15, 2008 and February 2009, did it remain relevant after this period? The IEG assessment will focus on the (prospective) effectiveness and benefits of the trade initiatives.[12]

31. Also to be examined are the IFC's Infrastructure Crisis Facility Debt Pool, established to partially address over $100 billion in infrastructure financing needs in emerging markets that could not be financed due to the crisis; the Capitalization Fund set up for equity support to emerging market banks as a result of the impact of the crisis; and the Debt and Asset Recovery Program, designed to deal with a growing distressed assets market in developing countries, expected to increase from $1.5 trillion to $2.5-3 trillion as a result of the crisis. IFC also established a Microfinance facility in 2009, to act as a backstop lender of last resort for refinancing requirements, expected to amount to $1.8 billion. IEG will evaluate the facilities both in terms of their relevance during the crisis as well as prospective relevance in case of another crisis.

32. The global initiatives raise numerous questions. Are the initiatives effective in meeting their objectives? Are the initiatives meeting their quantitative targets for funding, commitments and disbursements? Are they targeting crisis-affected countries? Does the design and structure of the respective facilities respond to crisis-related needs? What is the continued relevance of the facilities today? What is the cost/benefit of the initiatives, considering the time it took to set them up and the volume of business generated? Do the facilities present prospective conflicts of interest? What is the right balance between innovation and relying on more familiar and tested existing platforms and instruments in the midst of a crisis? If relevant, can the platforms be formalized into permanent and/or contingent arrangements ready and able to respond promptly to another crisis in the future?

*Methodology*

33. IEG will review the respective initiatives themselves, following the criteria outlined above. Projects underwritten by the respective initiatives will likewise be subject to review.

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[11] The *Update to the Board on Lessons Learned from the Global Financial Crisis* was prepared as a part of the technical briefing to the Board on June 11, 2009, in advance of IFC's Board meeting to discuss its FY10-12 Business Plan and Budget. It was prepared by IFC Controllers with inputs from IFC's Portfolio Department.

[12] A recent NBER Working Paper (Levchenko, Lewis et. al, 2010) cannot find support for the hypothesis that trade credit shortages played a role in the crisis related trade collapse.

The review will rely on interviews with task team leaders and their managers, as well as, in select cases, country officials. The review will also use board documents and project documents, such as supervision reports. Selected projects (20 percent sampling, selecting countries across a range of levels of financial stress, as in the planned analysis of the World Bank response) will be reviewed based on the adapted Project Evaluation Methodology described above.

*IFC Advisory Services*

34. Advisory Services are a core component of IFC's strategy, and have been growing rapidly, with an active portfolio approaching $1 billion and employing 1,262 staff, a sevenfold increase in the last seven years.13 IFC's Access to Finance (A2F) Advisory Services are a core component, with 241 A2F projects in 66 countries worth over $348 million in FY09. Its three pillars include: Micro/Retail; SME/Business; and Financial Infrastructure. Cross-cutting areas of risk management and climate change support the first two pillars. Emerging products include collateral registries, housing finance, sustainability finance and energy efficiency. Advisory Services also include products that are still in the development phase—trade finance, insurance, securities markets. The objective of advisory services during the crisis has been to help mitigate the impact of the current financial crisis on emerging market financial institutions (FIs) by improving risk management and internal control practices and improving portfolio monitoring and NPL management practices. At the institutional level, activities include building the capacity of FIs to monitor their portfolios and manage their NPLs and overall risk management. At the sector level, they include raising awareness of best practices in Risk and NPL management and working with WB/IC on distressed asset resolution initiatives. Activities target all types of FIs and portfolios, with specific techniques and tools adapted to each segment: retail/consumer, MSME, housing, insurance, asset management and corporate. IFC A2F has refocused existing advisory services projects in SME banking, microfinance, housing and leasing to address demand from financial sector clients for assistance with risk and portfolio management and loan servicing.

35. As part of the crisis response, IFC offered capacity building and advisory services under the Access to Finance Advisory Financial Crisis Response and Recovery initiative. The program offered Risk Management and Nonperforming Loan Advisory programs designed to strengthen financial institutions' risk management capacity and framework for loan portfolio monitoring, nonperforming loan management and loan workouts, as well as supporting the development of emerging distressed assets markets. 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. It has engaged in diagnostics and in-depth advisory work with 27 banks around the globe. This component of the evaluation will review the scope and effectiveness of IFC's Advisory Services in the crisis, using established IEG criteria to evaluate advisory services, modified to reflect the crisis-response backdrop, focusing, at the present stage, on outputs and preliminary

[13] *Knowledge for Private Sector Development – Enhancing the Performance of IFC's Advisory Services*, Independent Evaluation Group, February 20, 2009.

outcomes, as opposed to final outcomes or impact. The assessment will rely on interviews, reports and evaluations available from the A2F Advisory Services as well as from IFC's Development Impact Department - Advisory Services.14

*MIGA – Overview of Financial Sector Operations during the Crisis*

36. At MIGA, political risk guarantee operations in support of the financial sector increased substantially even before the crisis, starting in FY06, and peaked in FY09. An analysis of the crisis response operations, their relevance to the global crisis, their country focus and nature, and their complementarity to other WBG operations (recognizing the demand driven nature of MIGA's business) will be undertaken. The evaluation will examine whether and how the Agency was able to orient its business in response to the crisis, how its response compared with that of other providers of political risk insurance, and the developmental benefits.

## BANK GROUP SUPPORT IN PUBLIC FINANCE

*Public Finance and the Global Crisis*

37. Public finances deteriorated in most developing countries during the crisis, albeit comparatively less than in high-income countries. Even though public finance challenges seem less acute in developing countries compared to high-income countries, in the absence of fiscal consolidation over the medium term, and in view of the uncertain strength of the global recovery, the fiscal deficits created by the crisis may lead to growing public debt ratios, posing a risk for debt sustainability further down the road. A guiding framework for questions for the evaluation will therefore be the relevance and effectiveness of the design of Bank operations, in terms of providing effective support for medium-term fiscal consolidation in crisis-hit countries, while helping to protect pro-poor and growth-promoting spending. Effectiveness of Bank public finance support will need to be evaluated against broader country characteristics, as the policy response of individual countries has to a large extent been shaped by the strength of their fiscal fundamentals.

38. The evaluation framework for public finance support groups countries according to these fundamentals—captured by their public debt-to-GDP ratio and fiscal deficit as approximate indications of available fiscal space or "fiscal stress". Countries with high public debt and high fiscal deficit, such as Jamaica or Ghana, had virtually no fiscal space for countercyclical policy response and had to adjust to the crisis. Debt sustainability and fiscal consolidation were the main policy priorities for these countries, especially those where the growth contraction was the most severe. Countries with high public debt but low fiscal deficit, such as Brazil or Uruguay, had some room for countercyclical response, but the sustainability of public debt remained a priority. A key issue in this group was how best to use the available fiscal space to support the economy and the poor, while preserving debt sustainability. Other combinations of initial conditions, similarly, lead to different sets of priorities for public policy choices.

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[14] The unit is responsible for measuring and reporting on IFC's development results with special emphasis on IFC's advisory services operations.

39. Several countries (79) received financing from the Bank through DPOs with public finance content in FY09 and FY10, often in combination with financing from the IMF and other multilateral or bilateral donors, but other countries hit by the crisis did not make use of DPO lending facilities. These countries were supported mainly through advisory services, with focus on economic management and public finance, delivered either before the crisis, or through just-in-time AAA activities during the crisis. The evaluation will assess the effectiveness of Bank support to public finance both in countries that used Bank fast-disbursing borrowing facilities (DPOs) and in the countries that relied mainly on Bank advisory services.

*Comprehensive Portfolio Review and in-Depth Analysis*

40. Similar to the analysis of the financial sector portfolio, the analysis of the Bank's fiscal interventions will begin with an overview of the all project or program documents related to the Bank's crisis-related operations, which will seek to characterize the nature of the Bank's interventions, degree of "fiscal" content, based on their thematic codes, and other factual information relating to the nature of the operation. As for the financial sector, the overview of the portfolio will be supplemented by an in-depth review of relevant crisis-related fiscal operations in some 15-20 countries (as described in para. 9 above). The in-depth review will focus mainly on the results that the operations sought and have had, and their appropriateness given country conditions during the crisis. Up to 3-4 country visits will supplement the desk analyses, to provide illustrations and give some flavor to the broader trends and patterns revealed by the portfolio review and the desk based studies. Examples of evaluative questions, following the framework of the previous sections, are outlined below.

- What results did the operation aim to achieve and how appropriate was this, given the country's fiscal fundamentals and public finance challenges during the crisis? For instance, if the country faced the crisis with weak fiscal fundamentals—a high (increasing) public debt ratio and/or a large (increasing) fiscal deficit—did the operation support structural fiscal reforms intended to strengthen the fiscal position on a sustained basis? Alternatively, if the country faced the crisis from a position of fiscal strength—low and stable debt ratio and/or a low fiscal deficit—did the operation support a well-designed program of countercyclical response? In countries with low public debt but high fiscal deficit (facing a liquidity constraint, but not a solvency risk), was the operation designed so as to help create adequate fiscal space for countercyclical response while maintaining medium-term debt sustainability? Did the operation help create fiscal space to support key pro-poor expenditures? Did the operation include measures to protect key capital expenditures in education and health and capital spending for infrastructure?

- Were measures taken under the operation (prior actions, triggers) clearly linked to the outcomes sought? Or were they mainly steps towards institutional reforms with longer gestation periods that will require capacity building and TA? Were the public finance outcomes that the operation aimed to achieve (for example, on fiscal consolidation, or countercyclical response) either excessively over- or under-ambitious in view of the country's fiscal fundamentals? To what extent did the results which the operation aimed to achieve actually materialize? For instance, if the operation supported a stimulus package, is there evidence that the impact of the crisis on employment has been mitigated? If the operation supported scaling up of social protection, is there evidence that the incidence of the crisis on the poor has been mitigated?

- What is the likelihood of the long term sustainability of the results? Overall, did the operation support a transparent and reasonably comprehensive medium-term fiscal framework consistent with debt sustainability? For example, in terms of public financial management, did the operation support fiscal rules with the aim of introducing additional discipline in the budgetary process?

### BANK GROUP SUPPORT IN SOCIAL PROTECTION

41. Lending for social protection increased significantly over the crisis period. In FY09 and the first half of FY10 alone, the sharpest increase in lending was in the social protection area, with a more than 200 percent increase compared to the pre-crisis period. Although there were elements of social protection in financing operations to a large number of countries in FY09-10, spread over 118 operations, lending was nevertheless concentrated. Around half these operations (63 out of 118) had a high or medium social protection thematic content. In value terms, ten countries accounted for around 77 percent of total commitments (Table 2).

**Table 2. Social Protection Lending, FY09-10**

| Country | WB Lending (US$m) |
|---|---|
| Mexico | 1779.1 |
| Poland | 901.4 |
| Colombia | 669.3 |
| Turkey | 626 |
| Philippines | 590.2 |
| Argentina | 458 |
| Ethiopia | 412.8 |
| Pakistan | 334 |
| Hungary | 240.2 |
| Indonesia | 161.9 |
| **Total 10 countries** | **6173.1** |
| Total all countries | 7985.2 |
| **Percentage share** | **77.3%** |

42. The bulk of social protection lending was focused on social safety nets. In some cases, overall public expenditure efficiency issues were also addressed. However, in those operations where there was substantial focus on social protection themes, as Table 2 shows, overlap with operations with a significant fiscal focus was limited. Nevertheless, there were a significant number of operations with some social protection content that also had a fiscal focus.

43. Evaluative coverage of this area will follow a four-fold approach. First, the overall analysis of client country vulnerabilities and Bank Group resource allocations will examine the distribution, across countries, of Bank support for social protection during the crisis.

Second, and third, the evaluation will cover a comprehensive review of all operations in the portfolio, and an in-depth review of selected countries with social protection operations. The evaluation will draw significantly upon a parallel IEG evaluation of conditional cash transfers and social safety nets established in tandem with the food, fuel and financial crises which includes significant information on the role of the Bank in this area in the run-up to the crisis and during the crisis period. The Safety Net study, like the present study, includes a comprehensive coding of the entire portfolio. This work will however need to be supplemented, as not all social protection crisis operations (defined more broadly than social safety nets alone) are included—67 operations are common to both, and 51 additional projects can be identified. Among detailed case study countries, a number overlap with those countries which had the largest safety net interventions during the global financial crisis. There are however some notable omissions (e.g., Poland and Mexico), for which additional coverage, possibly including field visits, will be needed.

44. Fourth, the social protection pillar of the evaluation will also draw upon questions from the public finance review, to the extent that social protection expenditures are relevant for the evaluation of Bank interventions in public finance. Evaluative questions to be addressed will be incremental to those where information has already been made available through the ongoing social safety net investigation, adding those issues which are of importance in the context of the crisis, within the overall framework used in the preceding sector evaluations. Questions will focus on the relevance of the design, from the point of view of achieving program objectives, and to the extent possible, potential/actual effectiveness in terms of achieving results. Examples are as follows.

- What results did the social protection operations, or social protection components of crisis-related operations, aim to achieve? To what extent was Bank support during FY09-10 aimed at helping to mitigate the consequences of the crisis? Were the safety net and social protection interventions supported by the Bank appropriately designed for the dealing with the effects of the global financial crisis on the poor, in the country concerned?

- Were the results targeted appropriate in light of the country's particulars? Did the objectives align with the main transmission channels/ impacts, in the given country, of the global financial crisis, on the population—in terms of: (i) contractions in the income of poor and vulnerable households; (ii) increased unemployment; and (iii) reduction in fiscal space for the government to finance ongoing or new social protection/SSN needs? If yes, through which of the mechanisms described above was the intervention designed? Income support, employment support, fiscal support, or some combination? If not, was Bank support primarily a continuation of medium-term assistance for the development of appropriate SSN provisions? Were the results sought adequately linked to the measures supported? To what extent did the results which the operation aimed to achieve actually materialize? For instance, was the support helpful in meaningfully reducing the (estimated) impact of the crisis on household consumption?

- What is the likelihood of the medium- and long-term sustainability of results? What is the potential for impact of the Bank's support? Was the support sufficient to meaningfully reduce the impact of the crisis on poverty, household consumption, human capital, and unemployment levels? The analysis will consider both breadth (poverty headcount) and depth (poverty gap/inequality).

### CONCLUDING REMARKS

45. A concluding chapter will pull together various strands of the analysis and findings. In so doing, it will point to areas for the attention of Bank Group Management and other stakeholders. As with phase I of the crisis-response evaluation work, it is not expected that the report will present formal recommendations. Instead, implications for action—distinguishing between issues that are internal to the Bank Group and those that relate to client countries and other stakeholders—will be presented as lessons suggested by the evaluation. Like the phase I, the evaluation work in phase II will not be able to rely on primary (self-) evaluation material to any significant degree. Consequently, rather than advance categorical recommendations for action, it is envisaged that evaluation will "raise flags" relating to particular issues.

### STAFFING AND TIMING

46. The report will be prepared by a team led by Anjali Kumar and comprising Aristomene Varoudakis, Victoria Monchuk, Michael Pomerleano, Ann Flanagan and Ronald Johannes, supported by a range of additional staff and consultants, under the direct management of Ali Khadr, Senior Manager, IEGCC. The work will be conducted under the overall direction of Vinod Thomas, Director-General, Evaluation. Peer reviewers for the task include Uri Dadush and Gerard Caprio, formerly at the World Bank and Vito Tanzi, formerly at the IMF.

47. The timeline for the task is outlined in Table 3 below. A proposed chapter outline is given in Annex 1.

**Table 3. Crisis Response Phase II Evaluation Report – TimeTable**

| | |
|---|---|
| Approach Paper Submission to CODE | March 10, 2011 |
| One-stop Review | May 25, 2011 |
| Report submission to OPCS / IFC Management for comment | June 15, 2011 |
| Report submission to CODE | July 25, 2011 |

48. Dissemination of the report is expected, as for the Phase I evaluation, to target internal and external audiences, particularly (in the case of external audiences) among other IFIs, MDBs, and the ECG.

**Annex 1: Report Outline**
**A Real-Time IEG Evaluation of the World Bank Group's Response to the Global Economic Crisis: Phase II**

**Ch 1 Introduction, Background, Methodology**

**Ch 2 - The Overall Bank Group Response: A Closer Look**
*Vulnerability Patterns*
*Allocation of WBG Support*
*Appropriateness of Bank Group Instruments in a Crisis*
*Efficiency of Bank Group Operations during the crisis period*

*Bank wide coordination and synergies (with a special focus on the financial sector)*
*Coordination with Other IFIs*

**Ch 3 - Bank Group Support to the Financial Sector During the Crisis**
*Comprehensive Portfolio Review- the World Bank*
*In Depth Analysis- the World Bank (Case Study discussion)*
*IFC's Financial Sector Interventions during the crisis – An Overview*
*IFC's Global Crisis Response Initiatives*
*IFC Advisory Services*
*MIGA – Overview of Operations in Relation to the Financial Crisis*

**Ch 4 - Bank Group Support to Fiscal Management in the Crisis**
*Comprehensive Portfolio Review- the World Bank*
*In Depth Analysis- the World Bank (Case Study discussion)*

**Ch 5 - Bank Group Support to Social Protection During the Global Crisis**
*Comprehensive Portfolio Review- the World Bank*
*In Depth Analysis- the World Bank (Case Study discussion)*

**Ch 6 - Summary of findings**

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