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Independent Evaluation Group

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

## *Update on an Ongoing IEG Evaluation*

Evaluation Brief 8

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# Contents

# Acknowledgments

This brief is an interim byproduct of an ongoing IEG real-time evaluation of the World Bank Group's response to the global economic crisis. The brief was prepared by a team led by Ismail Arslan and Daniel Crabtree, drawing on inputs and/or other contributions from (in alphabetical order) Federico Arcelli, Ann Flanagan, Nils Fostvedt, Cheryl Gray, Javed Hamid, Sarwat Jahan, Carla Pazce, Manuel Peñalver-Quesada, Anwesha Prabhu, Jiro Tominaga, and Christine Wallich. Agnes Santos was responsible for administrative and production aspects.

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# Executive Summary

The Independent Evaluation Group (IEG) has undertaken an evaluation of the World Bank Group's (WBG) response to the current economic crisis, focusing on developments since mid-2008. The purpose of the evaluation is to provide inputs for enhancing the impact of WBG actions. The Approach Paper for the evaluation stated that IEG would deliver two main reports to the Committee on Development Effectiveness (CODE) by the end of fiscal 2010 and 2011, as well as interim notes for management and CODE. This first interim note presents a status report on the first year of the WBG response to the crisis. A summary of these findings was presented to the Chair of CODE, the WBG President, and senior management on October 1, 2009, by the IEG Director-General.

This note builds on IEG's 2008 Evaluation Brief, *Lessons from World Bank Group Responses to Past Financial Crises*. We draw attention once again to the importance of speed but also quality, coordination, and preparedness in addition to identifying newly emerging issues as an input into operational work in progress.

## Speed and Volume – A Swift and Sizable Response

### *Initial Response*

The scale and breadth of the crisis took the entire development community, including the WBG and the International Monetary Fund (IMF), by surprise. Initially focused on the impact of higher oil and food prices, the WBG mobilized itself quickly, compared with past crisis episodes. The additional funding it provided was sizable yet modest, compared to the fall in private capital flows to emerging and developing economies and to the assistance provided by some other sources (for example, the IMF and the European Union).

The World Bank delivered record levels of financial support, mainly through a near-tripling of International Bank for Reconstruction and Development (IBRD) lending (fiscal 2009 commitments were $32.8 billion, $13.5 billion in 2008). International Development Association (IDA) commitments also increased, though modestly (from $11.2 billion in fiscal 2008 to $13.6 billion in 2009).

By industry standards, the International Finance Corporation (IFC) was quick to structure its response initiatives, even though its new business fell by 8 percent in fiscal 2009 to $10.5 billion (some $1.5 billion below plans). Its investments in Sub-Saharan Africa, however, posted a historic peak, reflecting a continued strategic focus on frontier countries and regions. IFC's support for global trade expanded from $1.5 billion to $2.4 billion in fiscal 2009.

Commitments by the Multilateral Investment Guarantee Agency (MIGA), meanwhile, fell from

$2.1 billion to $1.4 billion but remained strong in Europe and Central Asia.

### *Disbursements*

IBRD disbursements increased from $10.5 billion in fiscal 2008 to $18.5 billion in 2009. IDA disbursements remained flat—though high by historical comparison—at some $9 billion. (IDA disbursements in fiscal 2008 included $817 million in arrears-clearance Development Policy Operations for three African countries.) Meanwhile, only $580 million of $7.9 billion mobilized was disbursed from new IFC initiatives as of the end of October 2009.

Although the WBG crisis response has had positive signaling effects beyond these figures, they point to the importance of IDA and IFC looking beyond new funding commitments to accelerate the pace of implementation, and of MIGA looking into expanding its business beyond the Europe and Central Asia Region. Building on initial success in Europe, MIGA will need to strengthen its business development function and advance changes to its Convention.

## Quality and Results – The Need for Close Attention

### *Results Focus*

IEG's 2008 Evaluation Brief underscored the crucial importance of balancing speed with quality. This evaluation reviews the WBG's attention to outcomes. A rigorous framework to track results is vital, as the volume of lending is at an all-time high—much of it in the form of Development Policy Loans—whereas the approach to conditionality relies mainly on a small number of prior actions.

An early sign of a greater results focus today is the Bank's mainstreaming of a requirement for results frameworks to underpin any type of financial support. In IFC's case, the results framework embedded in recent initiatives includes implementation targets and expected development benefits. But in both IFC and the Bank, resources for implementation are tightly constrained, creating tensions between speed and quality. The WBG's crisis response will need to ensure oversight and careful attention to quality and impact.

### *Poverty Focus*

According to a recent Bank analysis, the global crisis is expected to push more than 73 million people into poverty in 2009 alone. Given high unemployment and a rise in poverty, a positive feature in the current response is the greater prevalence of social protection programs. The bulk of the increase in Bank funding has gone to middle-income countries, where the initial impact of the crisis and its potential systemic effects are large and where significant pockets of poverty exist. But this pattern raises questions about the adequacy of financial flows to poorer countries. As the crisis unfolds, the World Bank must be careful to ensure adequate attention to low-income countries and to poverty reduction.

### *Crisis and Climate Change*

With the pressure of high oil prices moderating, fiscal space shrinking, and the urgency of the financial crisis, attention to the environment and climate change issues in most countries has declined. The WBG has recently promoted renewable energy and energy efficiency and helped mobilize funds to address climate change. But the WBG can play a stronger role in ensuring that actions on climate change are integral to the crisis response.

## Sustainability – New Concerns

### *Fiscal Sustainability*

Previous crisis episodes saw efforts in countries to reduce fiscal deficits and debt levels. In the present crisis, fiscal expansion has been needed both in Organsation for Economic Co-operation and Development member countries and in many developing countries to stimulate the economy in the face of the withdrawal of private capital. Though fiscal stimulus is still needed in some countries to promote inclusive and sustainable growth, it ought to be accompanied by greater oversight over the quality of expenditures, an area of WBG expertise.

### *Government and the Private Sector*

The economic emergency has led to an expansion in government interventions. Public opinion has also shifted toward governments' role in regulation, infrastructure building, and the provision of social safety nets. This makes it important for the WBG to continue support for government capacity, transparency, and effective regulatory policy.

At the same time, the private sector will remain the main engine of employment generation and growth. There is need for complementary private and public actions; the WBG can also be helpful in these arenas.

### *WBG Financial Capacity*

An issue of sustainability for the WBG concerns financial capacity for IBRD and IFC, which needs to be resolved quickly. Constraints to IFC's financial capacity, within the need to maintain its AAA rating, have contributed to a cautious approach that may have meant missed opportunities, given the enormous unmet demand for finance and the development value of investing in the wake of a crisis.

These issues have been actively debated at the Annual Meetings in Istanbul, but no decision has yet been taken. That raises the prospect that the WBG response may be constrained by its financial capacity if the crisis persists or deepens.

## Development Architecture – A Changing Face

### *Role for Developing Countries*

In the wake of the current crisis, the Group of 20 (G-20) has become a premier coordinating body on global economic issues, reflecting the important role of developing economies. The Annual Meetings stressed the role of the WBG in keeping the developing world—beyond the G-20's impetus—firmly on the global agenda. It is within a changing face of the architecture for development finance that the WBG needs to play this role.

### *Coordination*

Financial and capacity constraints make the coordination with external partners—and the focus on selected areas where the WBG has comparative advantage—imperative. A significant part of the WBG's response has taken place in the context of partnership and coordination agreements with the IMF, regional banks, and other partners. But the challenge remains to sustain, deepen, and further improve cooperation with all partners.

## Preparedness – More Important than Ever

### *Uncertainty Remains High*

We do not know if the current crisis is a one-off event, one more in the series of crises, or an inflection point signaling a long-term change in the development prospects. Regardless, the premium on anticipation and early warning systems, and flexibility in actions and response, is at an all-time high. An intensification of the WBG's analytical work and an increase in the knowledge base, covering both public and private sector concerns, as well as contingency planning to address unforeseen new demands, would seem vital to the next phase of the response.

## Chapter 1

# Lessons from World Bank Group Responses to Past Crises

IEG's 2008 report on lessons from World Bank Group (WBG) responses to past financial crises pointed to four crucial factors that have contributed to the effectiveness of previous responses:[1]

- ***Preparedness.*** The WBG needs a more effective early warning detection system for crises. Being prepared not only affects the speed of response but also aids in helping mitigate the impact of the crisis on clients.
- ***Speed and quality.*** Both the speed and the quality of interventions are crucial. This requires selective coverage focusing on areas of strength, customizing policy advice to country context to ensure technical quality, and maintaining a focus on growth and poverty.
- ***Growth and poverty.*** Crises pose a major threat to the more vulnerable segments of society. In previous crises, insufficient attention was paid to issues of poverty and social safety nets.
- ***Coordination.*** Getting the most out of the available resources requires both coordination with external partners and collaboration within the WBG. Leveraging resources in this way has proven crucial, not only in improving synergies but also in avoiding unproductive tensions.

These lessons provide the backdrop for this brief's preliminary review of the WBG's response to the current crisis.

**Note**

1. IEG. 2008. *Lessons from World Bank Group Responses to Past Financial Crises.* Evaluation Brief 6, World Bank, Washington, DC.

# CHAPTER 2
# The Crisis

The world has been facing its most severe economic crisis in recent memory. It threatens to set back years of progress on growth, job creation, and poverty reduction in developing countries.

The crisis began in the financial sector in the developed world in mid-2008 but has since spread to many developing countries. It has particularly affected countries more connected to the global economy, notably through the fast-moving private sector channels of investment and trade (table 1). Private capital flows to developing countries have fallen rapidly, from a peak of around $1,200 billion in 2007 to an estimated $363 billion in 2009—opening a substantial financing gap.[1] After years of strong performance, growth among developing countries is expected to be moderate in 2009 (table 2) and negative when China and India are excluded.[2]

The global economic crisis has reversed some of the gains in living standards that the developing world has made over the last decade. The World Bank estimates that the crisis will leave an additional 73 million people in extreme poverty (below $1.25 a day) in 2009 alone, and 89 million by the end of 2010.[3] Infant mortality, education, and other human development outcomes are affected more negatively during crisis episodes than the positive effects that occur when the economy is growing, so a crisis may wipe out many of the gains already made, at least in aggregate.

Moreover, in most countries, sharp employment losses have been registered since the third quarter of 2008. The average unemployment rate showed an upward trend in 2008 that continued in the first half of 2009. The International Labor Organization predicts that up to 59 million

**Table 1: Developing Country Financial Flows and Trade**

| | 2007 | 2008 | 2009[a] | 2010[a] |
|---|---|---|---|---|
| **Financial flows** ($ billion) | | | | |
| FDI, net | 411.2 | 425.0 | 279.0 | 269.5 |
| Portfolio flows, net | 88.1 | –85.4 | –99.8 | –110.4 |
| Debt, net | 499.1 | 128.3 | — | — |
| Remittances | 289 | 338 | 317 | 322 |
| **Trade** (% change) | | | | |
| Trade | 13.8 | 9.4 | –9.6 | 0.8 |

*Sources:* IMF 2009, World Economic Outlook database (http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/index/aspx); World Bank, 2009, "Global Development Finance 2009: Charting a Global Recovery," http://www.worldbank.org/gdf2009; World Bank, 2009, "Migration and Remittance Trends 2009: A Better-than-Expected Outcome So Far, But Significant Risks Ahead," Migration and Development Brief 11.

a. Forecast.

**Table 2: Growth Projections (% change)**

| | 2007 | 2008 | 2009[a] | 2010[a] |
|---|---|---|---|---|
| World output | 5.2 | 3.0 | –1.1 | 3.1 |
| Advanced economies | 2.7 | 0.6 | –3.4 | 1.3 |
| Developing economies | 8.3 | 6.0 | 1.7 | 5.1 |
| Africa | 6.3 | 5.2 | 1.7 | 4.0 |
| Eastern and Central Europe | 5.5 | 3.0 | –5.0 | 1.8 |
| Developing Asia | 10.6 | 7.6 | 6.2 | 7.3 |
| Middle East and North Africa | 6.2 | 5.4 | 2.0 | 4.2 |
| Latin America | 5.7 | 4.2 | –2.5 | 2.9 |

*Source:* IMF, 2009, World Economic Outlook (http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/index/aspx).
a. Forecast.

people will be unemployed as a result of the global crisis.[4]

By Region, Europe and Central Asia has been hit hardest, with a 5 percent drop in gross domestic product (GDP) forecast for 2009, following 3 percent growth in 2008. But other Regions have also been severely affected. Growth rates are expected to decline materially in all Regions this year, with negative growth also being registered in Latin America and the Caribbean. Low-income countries have not escaped the force of the crisis, as indicated by much weaker growth in Sub-Saharan Africa.

The crisis has triggered a large global response. Announced fiscal stimuli worldwide exceeded $3 trillion, or some 5 percent of global GDP. This effort has included some of the largest government economic interventions in history, which, coupled with the effects of growth deceleration and asset and commodity price declines, are creating fiscal pressures. Overall deficits in Group of 20 (G-20) countries are projected to increase by 7 percentage points of GDP in 2009 with respect to 2007 pre-crisis levels (table 3). As a result of weakening fiscal balances, the public debt-to-GDP ratio is projected to rise by 22 percentage points, with most of the deterioration occurring in advanced economies.

Many developing countries entered the crisis with generally small macro-imbalances, compared with earlier crises. However, they are now developing large macro-imbalances that need to be watched and taken into account in designing the next round of crisis response measures.

**Table 3: Changes in Fiscal Balances and Public Debt**

| | 2007 | 2009[a] |
|---|---|---|
| **Overall balance (% GDP)** | | |
| G-20 countries | –1.1 | –8.1 |
| Advanced economies | –1.9 | –10.2 |
| Emerging economies | 0.2 | –4.9 |
| **Debt (% GDP)** | | |
| Advanced G-20 countries | 78.8 | 100.6 |
| Emerging G-20 countries | 37.7 | 38.8 |

*Source:* Horton, Mark, Manmohan Kumar, and Paolo Mauro, 2009, "The State of Public Finances: A Cross-Country Fiscal Monitor," IMF Staff Position Note No. SPN/09/21.

a. Estimate.

Not only the size, but the nature of government actions has been unprecedented for some countries. In particular, financial sector policy responses in the United States and some European countries have resulted in partial nationalization of large financial institutions and left governments in control of much of the financial sector. In addition to their new roles as owners of financial institutions, governments in these countries are reshaping regulations, intervening in select large private concerns, expanding spending for infrastructure, and extending social safety nets. Thus, the crisis has started a potential change in the role and scope of government interventions in market economies and a shift in public opinion in favor of an expanded role for the public sector in select areas.

The crisis has also led to important changes in global economic governance. The G-20—a group of finance ministers and central bank governors from 19 countries plus the European Union, established in 1999—was upgraded from a ministerial to a leaders-level forum last year as the crisis deepened. More recently, it has become the premier coordinating body on global economic issues—a pivotal part of a new economic architecture in which emerging market economies are more important.

Facilitated by government stimulus packages, there are signs of recovery in many developed countries, including the United States and countries in Western Europe, in parts of Latin America and the Caribbean (the southern part of the continent), and especially in Asia.[5] Although advanced and middle-income countries are showing tentative signs of recovery, low-income countries continue to suffer the consequences of the global economic crisis. Due to falling exports and terms-of-trade shocks, the current account deficits of International Development Association (IDA) countries deteriorated from $10 billion in 2005 to $40 billion (or 7.6 percent of GDP) in 2009. Net private capital flows to low-income countries declined from $30 billion in 2007 to $21 billion in 2008 and are projected to decline further to $13 billion in 2009.

These conditions reduced growth in low-income countries significantly. The growth rate in Sub-Saharan Africa is expected to decline from 5.2 percent in 2008 to 1.7 percent in 2009. Uncertainty remains high in the global economy, and the experience of past crises (table 4) suggests that recovery may take longer for employment and capital flows than for GDP growth.

**Table 4: Effects of Previous Crises**

| Effect | Peak to trough (%) | Average duration of downturn (years) |
|---|---|---|
| Decline in GDP | –9.3 | 1.9 |
| Decline in equity prices | –55.9 | 3.4 |
| Increase in unemployment | 7 | 4.8 |
| Decline in net private capital flows | –169.8 | 4.0 |
| Cumulative increase in real public debt | 86 | na |

*Sources:* World Bank databases; Reinhart, C. M., and K. S. Rogoff, 2009, "The Aftermath of Financial Cirses," Paper presented in session International Aspects of Financial Market Imperfections, American Economic Association Meeting, San Francisco, January 3.
*Note:* Decline in net private capital flows is calculated from pre-crisis year to trough.

**Notes**

1. World Bank. 2009. "Global Development Finance 2009: Charting a Global Recovery." http://www.worldbank.org/gdf2009.
2. World Bank. 2009. "Global Development Finance 2009: Charting a Global Recovery." http://www.worldbank.org/gdf2009. Excluding China and India, GDP in the remaining developing countries is projected to fall 1.6 percent.
3. Chen, S., and M. Ravaillon. 2009. "The Impact of the Global Financial Crisis on the World's Poorest." Mimeo, World Bank, Washington, DC.
4. ILO. 2009. "Protecting People, Promoting Jobs." Report to the G-20 Leaders' Summit, Pittsburg, 24–25 September.
5. OECD. 2009. *OECD Economic Outlook: Interim Report.* Paris: OECD.

## Chapter 3

# World Bank Group Response

At the time of the 2008 WBG Annual Meetings (October 2008), the initial manifestations of the crisis were clear, but the WBG response had yet to be formulated. The WBG programs mentioned in the Development Committee Communiqué of one year ago were those put in place or planned earlier to address the food and fuel price crises: the $1.2 billion rapid financing facility to address the impact of high food prices on the poor (Global Food Crisis Response Program [GFRP]) and the planned program on Energy for the Poor, designed to address high fuel prices.

The Committee noted that the International Bank for Reconstruction and Development (IBRD) had the financial capacity to double its annual lending and encouraged the International Finance Corporation (IFC) to explore options for helping recapitalize banks in developing countries that were adversely affected by the global liquidity crisis, including the possibility of a fund.

The WBG strategy to respond to the crisis, formulated in late 2008 and early 2009, focused on the following key objectives: (i) protecting the most vulnerable against the fallout of the crisis; (ii) maintaining long-term infrastructure programs; and (iii) sustaining the potential for private sector-led growth and employment creation, particularly through small and medium enterprises and microfinance.

To address these objectives, the WBG has been using various tools: increased lending by the World Bank, particularly through the IBRD, as shown in table 5; fast-tracking of IDA funds; crisis response initiatives by IFC in the areas of trade finance, infrastructure, bank capitalization, microfinance, and advisory services; and a Multilateral Investment Guarantee Agency (MIGA) global financial sector initiative focusing initially on Europe and Central Asia.

Together, these actions are expected to lead to more than $100 billion in WBG commitments to developing countries by the end of fiscal 2011. This increased financing complements the $500 billion of extra lending capacity by the International Monetary Fund (IMF) and more than $700 billion in announced stimulus packages by low- and middle-income country governments (particularly China and Russia). Also, analytical work and other knowledge-based products have been reoriented to deal with the impact of the crisis.

**Table 5: World Bank Group Commitments, Fiscal 2008–09 ($ billion)**

| World Bank Group | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 to end October |
|---|---|---|---|
| IBRD | 13.5 | 32.9 | 13.3 |
| IDA | 11.2 | 14.0 | 2.9 |
| IFC | 11.4[a] | 10.5[a] | 2.7 |
| MIGA | 2.1 | 1.4 | 0.4 |
| **Total** | **38.2** | **58.8** | **19.3** |

*Source:* WBG.
*Note:* IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency.
a. Own account only. Excludes $4.8 billion in fiscal 2008 and $4.5 billion in fiscal 2009 mobilized through syndications and structured finance.

## World Bank

Most of the increase in World Bank lending in fiscal 2009 came through commitments in IBRD countries (figure 1), which rose from $13.5 billion in fiscal 2008 to nearly $33 billion in fiscal 2009 (exceeding the Bank's original target of doubling its lending level). IBRD gross disbursements nearly doubled, to $18.4 billion, with nearly half coming from development policy lending. IDA disbursements increased only slightly from a historically high level of $9.1 billion in fiscal 2009[1] to $9.2 billion, and IDA disbursements from development policy lending declined (figure 2).

For fiscal 2010, the demand for IBRD lending is projected to be at least $40 billion. Commitments in fiscal 2010 through October 2009 were about $13.3 billion.[2] IDA commitments also hit a record high of almost $14 billion in fiscal 2009, up 25 percent from the previous year (figure 1).

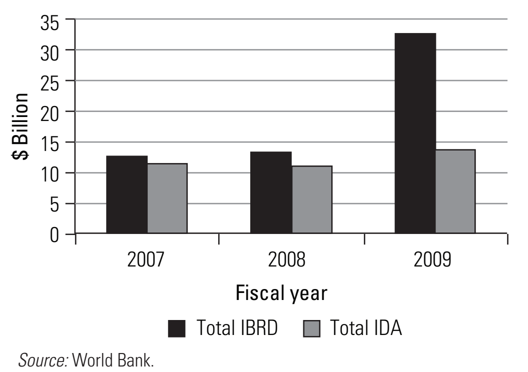
The IBRD lending increase was highly concentrated in a few large middle-income countries. IBRD lending to 13 countries in four Regions[3] accounted for 82 percent of the total (table 6). Lending to the five Latin America and the Caribbean countries accounted for about one-third of the total. Lending to five Europe and Central Asia countries accounted for another 21 percent, and the two East Asia and Pacific and one South Asia countries added another 30 percent of total IBRD lending (figure 3). In August 2009, IBRD increased its single borrower limit by $1 billion, to $16.5 billion, effective fiscal 2010. This limit applies to IBRD's largest borrowing countries that have achieved investment-grade status.

The Bank has streamlined procedures and facilitated project restructuring and disbursement through the IDA Financial Crisis Response Fast-Track Facility, which was funded by $200 million from IBRD's allocable net income, as well as $1.8 billion in IDA resources. Total commitments under this program currently amount to $1.2 billion, with disbursements of $790 million in more than 30 countries.

IDA commitments of $14 billion in fiscal 2009 were driven by strong delivery to Sub-Saharan Africa (53 percent) and South Asia (33 percent), with the rest going to other Regions (figure 4). Following a record 15th replenishment of $42 billion for fiscal 2009–11, IDA can deliver $28 billion in additional financing over the next two years. Given the sharp impacts of the global crisis on IDA countries and the growing demand from partners, even these resources may need to be augmented.

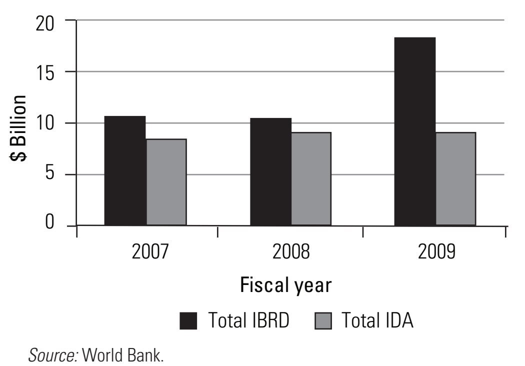
IBRD's and IDA's operational crisis response program has included targeted initiatives to protect the most vulnerable from the fallout from

**Figure 1: Total IBRD and IDA Lending Commitment ($ billion), Fiscal 2007–09**




*Source:* World Bank.
*Note:* IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

**Figure 2: Total IBRD and IDA Gross Disbursements ($ billion), Fiscal 2007–09**




*Source:* World Bank.
*Note:* IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

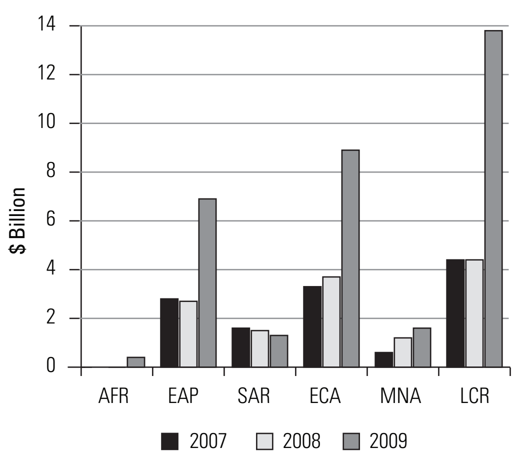
**Table 6: IBRD Commitments Fiscal 2009 and 2010[a]**

| Region | Country | ($ million) | % |
|---|---|---|---|
| **East Asia and Pacific** | Indonesia | 5,326 | 11.5 |
| | China | 2,360 | 5.1 |
| **Europe and Central Asia** | Poland | 2,550 | 5.5 |
| | Kazakhstan | 2,173 | 4.7 |
| | Turkey | 2,075 | 4.5 |
| | Hungary | 1,413 | 3.1 |
| | Ukraine | 1,300 | 2.8 |
| **Latin America and the Caribbean** | Mexico | 4,927 | 10.7 |
| | Brazil | 4,188 | 9.1 |
| | Argentina | 1,990 | 4.3 |
| | Colombia | 1,903 | 4.1 |
| | Peru | 1,385 | 3.0 |
| **South Asia** | India | 6,131 | 13.3 |
| **13-Country total** | | 37,722 | 81.6 |
| **IBRD total** | | 46,210 | 100.0 |

*Source:* World Bank internal database as of October 5, 2009, and staff calculations.
*Note:* India is a blend country. In addition to the IBRD amount shown in the table, India received $1,106 million during fiscal 2009 and the first quarter of 2010.
a. To end of October.

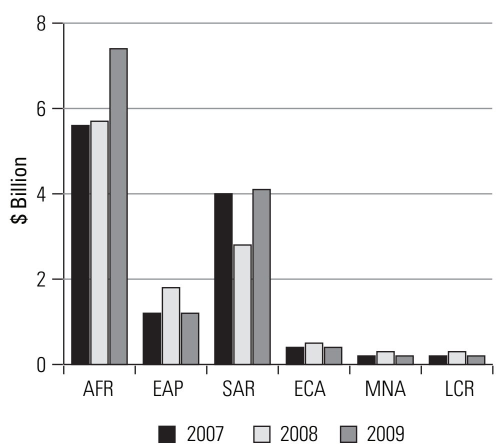
the crisis. The share of disbursement in social sectors, which include education, health, social protection and environment, increased from 17 percent in fiscal 2008 to 23 percent in fiscal 2009. This increase was much higher for IDA. The share of social sectors in IDA-provided resources increased from 21 percent in fiscal 2008 to 31 percent in 2009. Disbursement in agriculture, the

**Figure 3: IBRD Lending Commitments by Region ($ billion)**




*Source:* World Bank.
*Note:* IBRD = International Bank for Reconstruction and Development; AFR = Sub-Saharan Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa' SAR = South Asia.

**Figure 4: IDA Lending Commitments by Region ($ billion)**




*Source:* World Bank.
*Note:* IBRD = International Bank for Reconstruction and Development; AFR = Sub-Saharan Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa' SAR = South Asia.

main livelihood of more than 75 percent of the world's poor, increased from 15 percent to about 19 percent during same period.

Though largely unrelated to the World Bank response to the crisis, IBRD commitments in the environment area increased substantially from $450 million per annum in the pre-crisis period to $3.7 billion in fiscal 2009. Disbursement increased to $1.8 billion in 2009 from its $225 million pre-crisis level.

In several Regions (for example, Europe and Central Asia, East Asia and Pacific, and Sub-Saharan Africa), this increased lending has taken place in the context of regional coordination agreements with the regional banks and other partners. It is too early to assess the impact of such agreements, but they are a welcome innovation in the crisis response. In Europe and Central Asia, a first Progress Report of the Joint International Financial Institution (IFI) Action Plan (launched in February 2009) was released jointly by the European Bank for Reconstruction and Development, the European Investment Bank, and the WBG in time for the October 2009 Annual Meetings. Also, the initial lending responses to the crisis were often prepared in the context of IMF-led financial rescue programs.

The knowledge component of the Bank's crisis response has been limited at the central unit level, although Regional and country responses often included a reorientation of analytical work. In the early stages, the financial sector aspects of the crisis—which were the ones traditionally addressed in earlier crisis episodes—were emphasized (for example, by producing an assessment tool that countries could use to test the strength of their financial systems).

The poverty impact of the crisis also received some attention. One of the first pieces of work the Bank conducted was a policy note, "The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens,"[4] which provided an assessment of the countries that would be most exposed to poverty risk because of the crisis. The second significant work was a background paper for the G-20 Finance Ministers and Central Bank Governors meeting in London in March 2009. This paper, "Swimming Against the Tide: How Developing Countries Are Coping with the Global Crisis,"[5] summarized the impact of the crisis on World Bank client countries and the financing gap they face. Finally, "Global Development Finance 2009: Charting a Global Recovery"[6] has explored the broad approach needed in the aftermath of the crisis.[7]

## IFC

IFC's response to the crisis consists of two parts: new, strategic initiatives and actions through IFC's core business. The two are interrelated, in that the implementation of some of the initiatives is through IFC's core business.

Recognizing its limited financial capacity, exacerbated by significant equity write-downs brought on by the crisis and the enormous financing needs engendered by the crisis, IFC designed a range of global crisis initiatives focused on mobilizing resources from other Development Finance Institutions. Cooperation with other IFIs has been stepped up through the development of regional IFI action plans in Europe and Central Asia, Latin America and the Caribbean, and Sub-Saharan Africa. As of October 2009, six of IFC's global crisis initiatives were "active" and three were "under development."[8] The active initiatives, which involve funds mobilization of some $25 billion ($5 billion from IFC) between fiscal 2009 and 2011, are as follows:

- ***Trade:*** A Global Trade Liquidity Program (GTLP) of up to $5 billion, with IFC sharing risk on the trade portfolios of major international banks,[9] to complement an expansion in the existing Global Trade Finance Program (GTFP).[10]
- ***Infrastructure*** (Infrastructure Crisis Facility): A debt facility of up to $8 billion and an equity facility of up to $2 billion to support about 100 viable privately funded infrastructure projects facing temporary liquidity problems. The facility also includes Advisory Services to help governments design or redesign public-private partnerships.

- ***Microfinance*** (Microfinance Enhancement Facility): A $500 million facility that is expected to provide refinancing to more than 100 strong microfinance institutions in more than 30 countries and support lending of up to $84 billion to as many as 60 million low-income borrowers by 2014.
- ***Bank Capitalization*** (IFC Capitalization Fund): A global equity and subordinated debt fund of up to $5 billion, managed by a newly created IFC subsidiary (the Asset Management Company)[11] that aims to support banks considered vital to the financial system of an emerging market country.
- ***Debt and Asset Recovery Facility:*** A program of up to $4.5 billion that includes direct debt, quasi-debt, and equity investments in companies to support corporate debt restructuring and investment in nonperforming loan pools.
- ***Advisory Services:*** Up to $60 million of new donor funding is geared at improving the financial infrastructure and enhancing risk management through government and firm-level interventions.

IFC has articulated some progress indicators for its initiatives, covering funds mobilization, utilization, and development impacts. As of October 2009, IFC had approved $4.1 billion from its own account for new initiatives and had mobilized $3.8 billion from partners.[12] Of this $7.9 billion committed to new partnerships, only $580 million had been disbursed at the end of October

**Table 7: IFC's Crisis Initiatives: Governance Features and Implementation (October 2009)**

| Initiative | New platform | Independent management | Implemented through IFC | Implementation: Target fiscal 2009–11 | Implementation: Mobilization to October 09 | Implementation: Disbursement to October 09 |
|---|---|---|---|---|---|---|
| GTLP | Yes | No | Yes | Up to $5 billion | $1.4 billion (plus $1 billion IFC) | $451 million ($231 million partners; $220 million IFC) |
| GTFP[a] | No | No | Yes | — | — | — |
| Bank Capital Fund | Yes | Yes | Yes | Up to $5 billion | $2 billion (plus $1 billion IFC) | $20 million ($5 million partners; $15 million IFC) |
| Microfinance Enhancement Facility | Yes | Yes | Partially | $500 million | $ 400 million (plus $150 million IFC) | $108 million ($54 million partners; $54 million IFC) |
| Infrastructure Crisis Facility | Yes | No | Partially | $8 billion debt $2 billion equity | No legal commitments from partners ($300 million IFC) | $0 |
| Debt and Asset Recovery Facility | Yes | Partially | Partially | Up to $4.5 billion | $0 ($1.6 billion IFC) | $0 |
| Advisory Services | No | No | Yes | $30 million (revised down from $60 million) | $8.2 million | $1 million |
| Total from new partnerships | | | | $25 billion | $3.8 billion (+$4.1 billion IFC) | $580 million ($289 million IFC) |

*Note:* The ceiling of IFC's GTFP program was increased from $1.5 billion to $3 billion in fiscal 2009, to help respond to the crisis. The table does not include expected parallel financing in the case of GTLP ($3 billion) and the Infrastructure Crisis Facility ($3.5 billion). GTFP = Global Trade Finance Program; GTLP = Global Trade Liquidity Program.

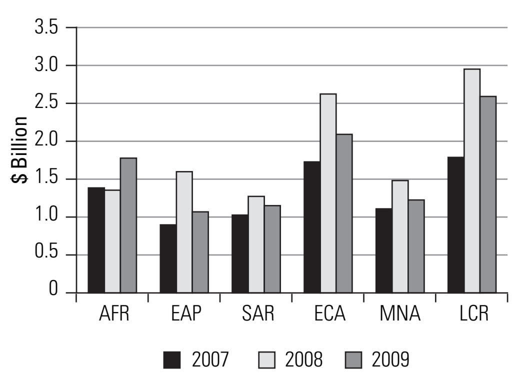
a. GTFP is an unfunded guarantee product.

2009 (table 7). This contrasts with an increase of trade finance support through the existing platform, GTFP, from $1.5 billion in 2008 to $2.4 billion in 2009.

IFC's response through its core business was more conventional. As in past crises, the Corporation's initial response was defensive: to place a very strong focus on protecting the portfolio. In contrast to previous crises, IFC now has separate, dedicated portfolio and new investment teams. IFC has assigned more investment staff to portfolio work. Support to portfolio clients has focused on help with financial restructurings.

In reaction to uncertainty associated with the impact of the crisis on IFC's financial capacity, volume targets for new business in fiscal 2009 were suspended. IFC also took a conservative approach to administrative expenses, with the introduction of a cross-department "productivity tax" of 3 percent and a hiring slowdown. The volume of new business dipped sharply in the middle of the fiscal year—especially in Europe and Central Asia and Latin America and the Caribbean. Where new business was pursued, it increasingly involved less capital-intensive instruments, such as short-term trade finance.

**Figure 5: IFC Investment Commitments by Region ($ billion)**




*Source:* IFC.
*Note:* IFC = International Finance Corporation; AFR = Sub-Saharan Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa' SAR = South Asia.

Overall, IFC's new business fell to $10.5 billion in fiscal 2009, from $11.4 billion in 2008. The $10.5 billion of new commitments in fiscal 2009 was $1.5 billion less than IFC was aiming to achieve ($12 billion). New commitments fell in all Regions, apart from Sub-Saharan Africa, where they increased (figure 5). The continued IDA focus was reflected in a 25 percent increase in investments in IDA countries, to $4.4 billion. Loan and equity commitments fell overall, and trade finance increased from $1.5 billion to $2.4 billion.[13]

A significant difference with past crises is that IFC has a larger knowledge services capacity than before, supported mainly by donor contributions and IFC retained earnings that were set aside during the boom years.[14] More than 1,200 staff are involved in the delivery of Advisory Services, compared to fewer than 100 at the time of the Asian Crisis in the late 1990s. The vast majority of IFC Advisory Services staff are based in the field (80 percent), which has enabled IFC to establish rapid response advisory teams on the ground to help address client crisis needs. IFC Advisory services expenditures grew to $291million in fiscal 2009, from $269 million in 2008.

## MIGA

MIGA's response to the crisis is built around but not limited to a new global Financial Sector initiative focused initially on Europe and Central Asia. Under this initiative, which was discussed with the Board in March 2009, MIGA will provide extended support to financial institutions seeking political risk insurance on cross-border investments for recapitalization or liquidity support to their subsidiaries. MIGA's total net exposure under this initiative would not exceed $1 billion in the Europe and Central Asia Region and is expected to support with reinsurance capital flows of up to $2–3 billion in gross terms. This initiative is part of the coordinated international response to the global financial crisis in the Region, specifically the Joint IFI Action Plan in Support of Banking Systems and Lending to the Real Economy in Central and Eastern Europe.

As a means to leverage IFC's greater field presence, in February 2009 MIGA and IFC signed a joint marketing agreement to enable cross-selling of services (and reduce possible duplication and competition).[15] In total, MIGA provided coverage to financial sector projects in the Europe and Central Asia Region for $1.2 billion, almost 88 percent of MIGA's new exposure during fiscal 2009.

Finally, MIGA's ability to respond to crises has been constrained by its Convention, which limits the agency's ability to cover freestanding debt or existing assets. MIGA has accordingly been seeking to accelerate changes to its Convention (while updating operational regulations) to allow greater product flexibility.

**Notes**

1. IDA disbursements in fiscal 2008 included $817 million in arrears-clearance Development Policy Operations for three African countries.
2. In addition, IBRD approved a 20-basis point loan price increase as part of its annual loan pricing review at the end of fiscal 2009.
3. Five countries in Latin America and the Caribbean, five in Europe and Central Asia, two in East Asia and Pacific, and one in South Asia.
4. World Bank. 2009. Policy note. http://siteresources.worldbank.org/NEWS/Resources/WBGVulnerableCountriesBrief.pdf.
5. World Bank. 2009. Background paper. http://siteresources.worldbank.org/NEWS/Resources/swimmingaginstthetide-march2009.pdf.
6. World Bank. 2009. "Global Development Finance 2009: Charting a Global Recovery." http://www.worldbank.org/gdf2009.
7. In addition there have been a few notes from the Poverty Reduction and Economic Management Network and Development Economics and Chief Economist.
8. Initiatives under development are Export Credit Agency Initiative, Global Food Initiative, and small and medium enterprise initiatives.
9. GTLP is expected to support more than $50 billion of trade finance assets, through a network of more than 500 issuing banks
10. The GTFP provides trade finance support directly to financial intermediaries in developing countries.
11. Also responsible for the Sovereign Wealth Fund, a $1 billion equity fund that involves national pension funds, sovereign funds, superannuation funds, and sovereign endowments from IFC shareholder countries co-investing in IFC equity transactions in Sub-Saharan Africa and Latin America and the Caribbean.
12. Mobilization is defined here as a written legal agreement to commit funds.
13. Against a new, increased ceiling of $3 billion.
14. A third source of funds is client contributions, which accounted for 6 percent of funding in fiscal 2009.
15. This action directly picks up recommendations made in IEG's 2008 *The World Bank Group Guarantee Instruments 1990–2007: An Independent Evaluation.*

# Chapter 4
# Emerging Findings

A review of the experience with the first year of the WBG's response to the crisis provides observations that can inform the response going forward. The focus here is on the WBG's global response, as country- or project-specific evaluations of WBG support in response to the crisis are still in preparation.

## World Bank

### *Preparedness and Speed of Response*

Much of the development finance community, including the Bank and the IMF, was surprised by the scale and breadth of the crisis. The initial response of the Bank focused on the impact of higher fuel and food prices in early 2008, and it took several months to develop a response strategy. The Bank, however, was able to react quickly with a sizeable lending increase, mainly for a few large countries that were able to formulate their demand quickly and/or received early IMF support.

The potential impact of the crisis on low-income countries was initially underestimated. This was consistent with prevailing views in the IFI community that transmission mechanisms would take longer to reach low-income countries (for example, the IMF World Economic Outlook reduced the 2009 growth forecast for Africa to 1.5 percent only in July, after several more optimistic scenarios earlier) with lower country capacity to anticipate and articulate their financing needs. Bank attention to the impact of the crisis on low income countries has increased recently, as shown in the paper prepared for the G-20 meeting of September 24–25, 2009, devoted entirely to this issue.[1]

### *Poverty Focus*

The pattern of the initial response in fiscal 2009, with most of the funding increase going to middle-income country clients, where the early impact of the crisis was large and significant pockets of poverty exist, still raises questions about the adequacy of financial flows to poorer countries. The greatest part of the Bank's response in fiscal 2009 was a large increase in IBRD lending, which was unprecedented relative to previous levels but modest in relation to crisis-induced needs and to support from other sources (for example, the IMF or the European Union).

IDA commitments also increased, but disbursements did not. The larger increase in lending to middle-income rather than low-income countries reflected specific country demand, but also the greater ability of middle-income countries to formulate their financing needs and tap sources more quickly.

Furthermore, aside from demand-side factors, IDA's ability to mobilize increased funding to react to sudden changes in demand is and will remain limited, and the fast-tracking of available IDA funds has been modest. In both IDA and IBRD countries, the focus on poverty also requires attention to the specific design of the lending operations and analytical support provided by the Bank.

### *Climate Change Focus*

The Bank has provided leadership in generating and using climate funds in the developing world. Yet climate change has not become an integral part of the World Bank crisis response. The Bank has sent signals internally about the importance of maintaining focus on climate change during the crisis and has helped a few countries, China and Mexico in particular, to incorporate green investments into their stimulus packages. The unprecedented expansion in government spending also provides a unique opportunity to shift from business as usual to a path of energy efficiency and low carbon investment. Though it is maintaining a clear focus on the environment, the Bank needs to make better efforts to link the crisis response with climate change.

### *Coordination*

Coordination with other financial institutions in the response to the crisis has improved through the signing of Joint IFI Action Plans in several Regions Though it is too early to assess the effectiveness of such agreements,[2] they are a welcome improvement over previous crisis episodes.

In the East Asia and Pacific Region, the World Bank is working with the Asian Development Bank and other development partners. In March 2009, the Bank approved a $2 billion Indonesia Public Expenditure Facility—the largest single loan to Indonesia and one of the largest to any country. The loan supported the preemptive steps Indonesia took in the face of global financial crisis to reassure financial markets, maintain financial stability, and sustain critical public expenditures and private investment. Indonesia also requested the Bank's assistance for additional financing from other bilateral and multilateral sources, which the Bank was able to provide, resulting in commitments of another $3.5 billion from the government of Japan and Australia and the Asian Development Bank.

In Eastern Europe and Central Asia, the Bank, together with the IMF and the European Commission, participated in international support packages for Hungary, Latvia, Romania, and Ukraine, where all or a significant share of the policy actions being supported are related to strengthening the financial sectors. The loans to Hungary and Ukraine[3] were delivered in early fiscal 2010, partly reflecting the time required to support the preparation of banking sector reforms.

Internal coordination and support from central units to country units appear to have been limited. There was limited coordination among the main Bank central units such as Development Economics and Chief Economist, the Poverty Reduction and Economic Management Network, and financial sector development/private sector development, and between these central units and the country units. There was good institutional cooperation with the IMF on low-income countries, building on the collaboration on debt sustainability analysis. But there was limited institutional engagement with respect to major policy issues affecting middle-income countries (for example, the financial sector). At the country level, however, there was close cooperation with the IMF in several instances.

## IFC

### *Speed and Volume*

Anticipating some degree of financial turmoil, IFC began preparations to assist clients in Europe and Central Asia as early as 2007. It fully turned its focus to the health of its global investment portfolio in late 2008. The drop in new business of 7 percent was less than the 40 percent fall in past crises[4] and the severe drop-off in private capital flows but was not in step with large increases in private investments by the Asian Development Bank, the European Bank for Reconstruction and Development, and the European Investment Bank. Although total commitments were down overall, commitments in IDA countries increased by 25 percent, in line with the continued IDA strategic focus.

IFC's crisis initiatives were structured quickly but disbursement has been limited—with 7 percent of committed funds ($580 million of $8.8 billion) disbursed as of October 2009. Initiative set-up can be considered relatively fast when it is judged against industry standards[5] and phasing of objectives. But it is slow in the context of the three-year crisis response horizon embedded in the design of IFC's crisis response, and given the need to frontload assistance for maximum impact. IFC was able to act quickly and set up rapid response Advisory Services teams in the field, leveraging a much more substantial presence on the ground than in past crises.

### *Response Design*

Given the adverse effects of past crises on IFC's portfolio, both in terms of financial returns and development impact, it was appropriate for IFC to make determined efforts to protect its investment portfolio. At the same time, a crisis can present good opportunities for impact through new investments, as was the case in Korea in 1997. By decreasing new activity in many countries in the wake of the crisis, IFC may have missed opportunities—given the enormous unmet demand for private sector finance and, as evaluation has shown, the development value of investing in the wake of a crisis.

The structure of IFC's crisis initiatives shows learning from past crises—they are targeted and temporary, are based on partnerships, and involve knowledge services. The initiatives focus on key vulnerabilities, such as global trade, microfinance, infrastructure, and bank capital. They are ambitious both in number and projected size, relative to IFC's regular business. They are also innovative in that they involve the establishment of IFC's first subsidiary, the Asset Management Company (to house the Bank Capitalization Fund) and new forms of partnerships and fiduciary duties (notably IFC's role as fund manager).

### *Early Implementation*

The challenges associated with operational implementation of the new initiatives appear to have been underestimated: (i) complexities associated with accommodating the different preferences and requirements of partners; (ii) the need to build the institutional capacity for fulfilling new fiduciary duties involved with managing other people's money; (iii) the significant added demands on staff resources for design and implementation, which had to be accommodated within a self-imposed hiring slowdown; (iv) weak incentives to put projects on the initiatives' books in countries and sectors where exposure limits have not been binding (most countries and sectors); (v) weak ownership in the Regions—the fact that the initiatives originated in headquarters facilitated speed initially but also caused lack of buy-in by those implementing them in the field; (vi) improving economic prospects in most Regions, which reduced the urgency of public entities to make new funding commitments to fight the crisis; and (vii) the large number of initiatives and their simultaneous implementation, which resulted initially in an uncoordinated approach to donors in some cases, with different initiatives approaching the same donors for funding support.

### *Adaption*

Experience of past crises showed the importance of adapting to changing circumstances. IFC has shown flexibility in adjusting to changing conditions. In April 2009, in the face of competition and crowding out between initiatives, IFC established a Back Office Operational Team to coordinate initiatives and to manage fiduciary obligations to donors and investors.

Management has also issued directives to staff to use the initiatives in an effort to address ownership and incentive issues in the Regions. New internal rules and procedures have been developed regarding the use of IFC-managed donor funds for investment purposes, and Regional subfunds and initiatives have been established both to accommodate partners' preferences and to build ownership. Also, products with novel features, such as GTLP, have been discussed by the New Product Group to assess and address risks.

### *Financial Capacity and Countercyclical Role*

Uncertainty associated with the impact of the crisis on IFC's financial capacity, within the constraint of maintaining an AAA rating, has contributed to a cautious approach to the core business. That caution meant that the Corporation focused heavily on portfolio management and was highly selective in embarking on new business; that is, it took limited risks. The level of Non-Performing Loans had spiked during previous crises, and though they have stayed at relatively low levels so far during the current crisis, there is the fear that they could increase.

This uncertainty, amid declining equity valuations[6] and the withdrawal of some cofinanciers, may have prevented IFC from fully using its balance sheet over the past year, in that projects were put on hold or postponed indefinitely. Communications to the field were not clear—messages about IFC's countercyclical role were combined with signals to limit new lending, protect the portfolio, and focus on the new initiatives as a source of new capital. It took some time for new business development, especially in Europe and Central Asia, to be restarted. This indicates the importance of capital headroom being available in a crisis.

### *Medium-Term Prospects*

The prospects for impact from IFC's core business will depend on how well IFC balances portfolio management with new investments, including through the global initiatives. It will be important to catalyze new investment in countries with improving economic conditions. The new initiatives may initially have had positive signaling effects on market psychology, in contributing to the perception of a vigorous global response to the crisis—they were designed quickly and announced at the height of the crisis, with some forming part of announcements by the G-20.

There is also some evidence that IFC mobilization efforts will result in additional funds from government sources being allocated for development purposes (specifically for private sector development). If sustained beyond the crisis, new platforms such as the Asset Management Company have the potential to change IFC's business model and enhance the Corporation's development reach.

However, to be credible, announcements need to be backed up by action and fulfillment of objectives. Delays can be particularly costly if the initiatives immobilize IFC's resources and the capital of partners in a general environment of limited financial capacity. In this context, attention needs to be given to ownership and incentive issues in the field regarding the implementation of initiatives.

### *Coordination*

A defining feature of IFC's response is partnerships with other Development Finance Institutions. Although cooperation has been more extensive than in past crises, there is considerable Regional variation. Collaboration has been far more extensive in Europe and Central Asia than in other Regions. At the initial epicenter of the crisis in the developing world, such collaboration (which IFC helped facilitate) sent an important signal to the market that IFIs collectively would take unprecedented joint action to avoid a systemic banking collapse. Overall, IFI investments in the Region have increased since the crisis (although not in the case of IFC). Such cooperation will continue to be important, both in Europe and Central Asia and in other regions. On IFC's part, implementation of new initiatives will need to be speeded up, so that IFC can expand on its role in collaborative efforts.

## MIGA

### *Speed and Volume*

MIGA's guarantee commitments fell by a third in fiscal 2009, but new business was highly concentrated in the area (financial sector) and in the Region (Europe and Central Asia) hardest hit by the crisis initially. As MIGA relies on a few channels to develop its operations, its activity is mainly focused on the financial sector, through a handful of client relationships. This concentration brings with it potential market and operational risks.

MIGA could benefit from a comprehensive business development function, which (together with the Convention changes mentioned earlier) could augment the agency's capability to address needs arising from the crisis. Through the joint service agreement of February 2009, MIGA and IFC have begun a cooperative effort focused initially on Europe, and this is starting to produce a small pipeline of deals. There may be merits in broadening this effort to other Regions, where MIGA is currently doing much less business and where IFC has field presence.

**Notes**

1. World Bank. 2009. "Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession." http://go.worldbank.org/W725NIA7R0.
2. The next stage of this evaluation, focusing on a sample of country case studies, will assess the performance and early results of the increased coordination mechanisms.
3. An earlier loan to Ukraine (Development Policy Loan III), which was already under preparation prior to the crisis, was approved in late 2008. In Hungary, the longer preparation time was also related to initial country concerns about the loan's interest rate (and to the novelty of lending to a "graduated" country).
4. IEG. 2008. *Lessons from World Bank Group Responses to Past Financial Crises.* Evaluation Brief 6, World Bank, Washington, DC.
5. For example, it takes IFC about 9 months on average to go from an early review to disbursement in a private equity fund.
6. The total value of write-downs may, as IFC management acknowledges, have been exacerbated by IFC holding equity longer than it might have during the boom years. Early attention to global risks beyond IFC's two country stress test scenarios could have been helpful.

## CHAPTER 5

# Seven Issues Going Forward

The impact of the crisis thus far and the initial assessment of the WBG's response in its first year suggest seven key issues:

- First, ***poverty must be the main focus of WBG support.*** Experience from previous crises suggests that unemployment, one of the main causes of worsening poverty levels, tends to recover more slowly than GDP growth. In addition, experience also indicates that the speed of recovery from a crisis is inversely related to a country's level of development and that the poverty impact is also greater in low-income countries. Current trends already suggest such patterns. Even while demand for support from middle-income countries remains high, attention to low-income countries needs to be increased. As called for in the paper for the September 2009 G-20 meeting, the focus on low-income countries needs to be made operational within the WBG with a coordinated strategy that includes a clear definition of objectives and instruments. Also, focus on poverty issues in middle-income countries should continue to be a major component of Bank support.
- Second, ***close attention to fiscal deficits and debt sustainability is essential.*** Maintaining debt sustainability in the face of growing fiscal pressures remains problematic especially for a number of low-income countries. Thus—even though fiscal or monetary stimulus may still be needed in some countries—economic policies need to move toward the reestablishment of sustainable macroeconomic conditions, a key ingredient for growth. Future growth will depend on the quality of public expenditures, which is a concern in the context of stimulus packages that are not only large but also hastily put together. The ability of the WBG to support each case with country-specific measures based on analytical work will be crucial.
- Third, ***the shift toward a greater role for government needs to be balanced with efforts to re-invigorate the private sector.*** This economic emergency has led to an expansion in government interventions and a better understanding of the significance of sound regulation. This underscores the importance of the WBG support for government capacity, transparency, and effective regulatory policy. At the same time, the private sector will need to be supported, in particular by facilitating its access to finance. Although WBG experience suggests that these reforms require complex institutional actions, they should not be left for later stages of crisis response.[1]
- Fourth, ***environmental and climate change issues need to be integrated into crisis response and recovery strategies.*** Climate change is a critical issue for sustainable growth and development. Environmental and other drivers of climate change will accelerate again with recovery and growth. Thus, climate change needs to receive systematic attention as an integral part of crisis response and recovery strategies.
- Fifth, WBG ***capital adequacy issues need to continue receiving attention.*** Given the potential implications of a prolonged crisis, it is important to address quickly the financial capacity of the WBG. But taking into account the primacy of speed and volume for the effectiveness of crisis response, it is also important to consider engineering flexible, contingent

mechanisms that would allow the WBG to confront similar crisis situations in the future.

- Sixth, ***a strong focus on results is vital.*** This is especially critical now, when the volume of Bank lending is at an all-time high, financial support from other sources (mainly the IMF) is also high, and the Bank is seeking to increase capital contributions. This situation—together with the greater focus of conditionality on few prior actions with strong country ownership—places a high premium on ensuring clear and measurable objectives for WBG assistance, monitoring and evaluation instruments, as well as on the WBG commitment to implement corrective actions.
- Finally, although the crisis is now more than a year old, ***complacency needs to be avoided and preparedness enhanced.*** Signs of recovery are now present in many countries, developed and developing alike, but the risks of reversal or delayed recovery for low-income countries remain considerable. Monitoring the crisis through WBG's analytical work, designing early warning mechanisms at the institutional and country team level, and maintaining WBG effectiveness through flexibility and contingency planning in the face of rapidly evolving economic conditions are therefore crucial.

**Note**

1. IEG. 2008. *Lessons from World Bank Group Responses to Past Financial Crises.* Evaluation Brief 6. World Bank, Washington, DC, p. 7.