

## APPROACH PAPER

# INDEPENDENT EVALUATION OF THE WORLD BANK GROUP'S RESPONSE TO THE GLOBAL CRISIS

## Introduction

1. The world is facing its most severe economic crisis in living memory, a trial that threatens to set back years of progress on growth, job creation, and poverty reduction in developing countries. Though the crisis began in the financial sector in the developed world in mid-2008, it has since spread to many developing countries, particularly affecting those countries most connected to the global economy, notably through the fast-moving channels of trade, investment, and worker remittances. Europe and Central Asia (ECA) has been hardest hit so far, but Latin America and the Caribbean (LAC) and Asia have also been severely affected, though there are already signs of recovery in the latter. Moreover, low-income countries have been hit hard by the crisis in 2009 as indicated by the expected fall in the growth rate in Sub-Saharan Africa, from 5.5 percent in 2008 to 1.5 percent in 2009.

2. The World Bank Group (WBG) is responding to this crisis through various means: increased lending by the World Bank (WB), particularly through the International Bank for Reconstruction and Development (IBRD); crisis response initiatives by the International Finance Corporation (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 ECA. Together, these actions are expected to lead to some \$100 billion in additional finance to developing countries by the end of FY11. This package of measures arrives in the context of the recently agreed \$500 billion of extra lending capacity by the International Monetary Fund (IMF), and over \$700 billion in announced stimulus packages by low- and middle-income country governments (much of it by China and Russia).

3. The purpose of this evaluation is to review and assess the WBG's response to the crisis, focusing on developments since mid-2008, and to draw lessons aimed at enhancing the impact of continued actions by the WBG and others. The evaluation will be carried out jointly across all three IEG units to provide a holistic perspective on the WBG response. Evaluation work will take place over the next two years, as the response is being implemented, with two main reports being delivered, respectively, by the end of FY10 and FY11. There will also be more informal communications to provide timely feedback to the Executive Directors and Bank management as the crisis and the WBG response evolve. The evaluation will thereby provide real-time feedback,<sup>1</sup> geared toward improving ongoing crisis response efforts, while providing accountability for activities carried out to date, and helping prepare for future crises. It builds upon, and follows, a 2008 Independent Evaluation Group (IEG) report examining lessons of Bank Group interventions during past crisis episodes.<sup>2</sup>

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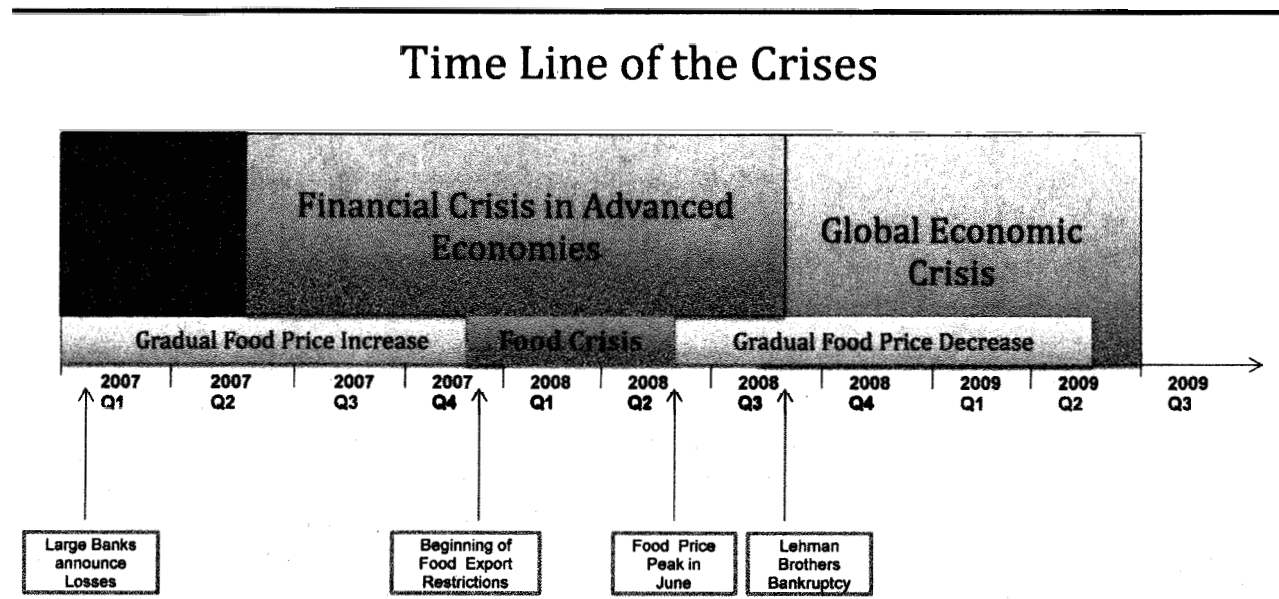
<sup>1</sup> A real-time evaluation is carried out while a program is in full implementation and feeds back findings to the program for immediate use. See Unicef. 2003. *Desk Review of Real Time Evaluation Experiences*.

<sup>2</sup> IEG. 2008. *Lessons from World Bank Group Responses to Past Financial Crises*.

## The Crisis

4. In the past two years, the world economy has been hit by three distinct but overlapping crises (see Figure 1). The first was financial: an apparently “local” crisis in the subprime mortgage market in the United States financial sector. This gradually escalated into a global financial crisis and then into a global economic crisis. Amid these crises were the global food crisis and the fuel price increases that worsened the worldwide recessionary impact of the financial collapse. The effects of these crises have been widely assessed as the most serious and potentially devastating the world has experienced since the Great Depression.

**Figure 1: Crisis Chronology, 2007-09**



5. The real estate and subprime lending crisis in the United States deepened into a financial crisis in advanced economies in mid 2007. The loss of investor confidence in the value of securitized mortgages peaked in August 2007, as leading Wall Street firms such as Bear Stearns, Merrill Lynch, JPMorgan Chase, Citigroup, and Goldman Sachs<sup>3</sup> began to report high losses. The TED spread, an indicator of perceived credit risk in the general economy, spiked from an average of 20 basis points in early 2007 to over 100 basis points in August 2007,<sup>4</sup> and remained volatile for a year. Activity slowed as credit conditions tightened, and advanced economies fell into mild recessions by mid-2008. Emerging and developing economies continued to grow at fairly robust rates by past standards as they had limited exposure to the U.S. subprime market. However, despite policymakers' efforts to sustain market liquidity and capitalization, concerns

<sup>3</sup> Bear Stearns and Merrill Lynch were later acquired by JPMorgan Chase and Bank of America respectively.

<sup>4</sup> The TED spread—the difference between the three-month T-bill interest rate and three-month LIBOR—fluctuates over time, but historically has remained within the range of 10 and 50 basis points. A low TED spread occurs when banks are seen as strong and in good financial health; the risk of default or bankruptcy is low, and therefore other banks are willing to lend money at nearly the risk-free interest rates paid by the U.S. government. A rising TED spread often presages a downturn in the U.S. stock market, as it indicates that liquidity is being withdrawn.

about losses from bad assets continued to raise questions about the solvency and funding of core financial institutions.

6. The situation deteriorated rapidly and escalated into a global economic crisis in September 2008, following dramatic collapses in the financial market. After Lehman Brothers declared bankruptcy, the TED spread exceeded 300 basis points and on October 10, 2008, it reached a record 465 basis points, reflecting a breakdown in interbank lending. Large losses in the banking and financial sectors resulted in a liquidity crisis that rippled across the Atlantic through financial channels. Stock markets worldwide tumbled, and entered a period of high volatility, and numerous banks, mortgage lenders, and insurance companies failed in the following weeks. To avoid a complete meltdown, the United States Federal Reserve, the Bank of England, and the European Central Bank injected substantial capital into financial markets.

7. What was seen originally as a U.S. financial sector crisis spread to other economies through finance and trade channels. Falling international demand led to declining exports of emerging economies, while private capital flows to developing countries fell rapidly, from a peak of around \$1,200 billion in 2007 to an estimated \$363 billion in 2009.<sup>5</sup> In parallel, commodity prices fell and several countries also faced lower remittances.<sup>6</sup>

8. Virtually every economy around the world has been seriously affected by the economic crisis, although the magnitude of the impact has varied. The advanced economies experienced an unprecedented 7.5 percent decline in real gross domestic product (GDP) during the last quarter of 2008 and output continued to fall fast during the first quarter of 2009. Emerging economies as a whole contracted 4 percent in the last quarter of 2008, and are expected to register barely positive growth in 2009 (negative growth, when China and India are excluded).<sup>7</sup>

9. Overlapping with the transition from the initial U.S. financial crisis to the global economic crisis was a major increase in food prices triggered by poor harvests, competition with biofuels, higher energy prices, surging demand in emerging economies, and a blockage in global trade. The food price index peaked in June 2008, but gradually dropped as the global economic crisis erupted in the third quarter of 2008 and commodity prices fell. While food prices in world markets have continued to decline, domestic prices in developing countries have eased more slowly. They remained on average 24 percent higher in real terms by the end of 2008 compared to 2006. The dangerous mix of the global economic slowdown combined with stubbornly high food prices in many countries has pushed some 100 million into chronic hunger and poverty.

10. The current global economic crisis thus differs from recent crises in several respects—its roots in the financial systems of developed countries, its global reach, and its overlap with food and fuel price crises. At the same time, the impact of the crisis on low- and middle-income countries has many similarities with past episodes: a rapid decline in capital inflows and economic activity in emerging economies; declines in export revenues and revenues from

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<sup>5</sup> World Bank. 2009. *Global Development Finance 2009*.

<sup>6</sup> Especially countries with high levels of migration to the United States, such as Mexico.

<sup>7</sup> See *Global Development Finance 2009: Charting a Global Recovery*, World Bank, June 2009. Excluding China and India, GDP in the remaining developing countries is projected to fall 1.6 percent.

remittances; serious social effects in the form of rising unemployment and poverty; and the need for urgent action by international financial institutions (IFIs) to help fill financing gaps, assist in the provision of social safety nets, and offer knowledge services geared toward better systems of regulation and governance.

## **World Bank Group Response**

### **OVERVIEW AND OBJECTIVES**

11. The global implications of the crisis, including the beginnings of a global recession, began to be reflected in the major discussions of IFIs in the fall of 2008. When the 2008 WBG Annual Meetings (October 2008) took place, the initial manifestations of the crisis were clear but the response had not yet been formulated. The WBG programs mentioned in the Development Committee Communiqué 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 IBRD had the financial capacity to double its annual lending, and encouraged IFC to explore options for helping recapitalize banks in developing countries adversely affected by the global liquidity crisis, including the possibility of a fund. It was also at this time that IEG carried out its review of lessons from previous crises.<sup>8</sup>

12. In March 2009, following a series of internal discussions and announcements, the different components of the WBG response were brought under three pillars (objectives):<sup>9</sup> (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 (SMEs) and microfinance.<sup>10</sup>

13. Measures to address these objectives were expected to amount to some \$100 billion of additional WBG financing over the following three years (FY09-FY11). Within this IBRD lending was expected to increase by around \$70 billion, mostly through development policy lending (DPL), while the International Development Association (IDA) planned to front-load its lending through the Financial Crisis Response Fast-Track Facility and IFC to increase its investments to about \$12 billion per year over the three years. The two umbrella programs of the World Bank are the Vulnerability Financing Facility (VFF) to streamline support to protect the poor and vulnerable during global and systemic shocks; and the Infrastructure Recovery and Assets (INFRA) Platform to stabilize existing infrastructure assets, ensure delivery of priority projects, support public/private partnerships in infrastructure, and support new infrastructure projects. The VFF includes the pre-existing GFRP, and the Rapid Social Response Fund. IFC's Private Sector Platform includes five facilities (either new or expanded) for a total of around \$30 billion over three years, including

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<sup>8</sup> IEG. 2008. Evaluation Brief 6. "Lessons from World Bank Group Responses to Past Financial Crises."

<sup>9</sup> Corporate Secretariat. 2009. OM2009-0008.

<sup>10</sup> World Bank. 2009. *World Bank Group Operational Response to the Crisis*. SecM2009-0168 and *Financial Crisis Response and Use of Instruments*. SecM2009-0167.

funds from IFC's own account and externally mobilized resources (see para. 20). MIGA's response focuses on a new Financial Sector Initiative geared toward ECA.

14. The WBG committed \$58.8 billion in fiscal 2009 to assist countries struggling with the global economic crisis (Table 1), a 54 percent increase over the previous fiscal year and a record high for the global development institution. This support was provided in loans, grants, equity investments, and guarantees to assist governments and private sector firms deal with the negative effects of the global crisis.

**Table 1: World Bank Group Commitments, FY08-09 (\$ billion)**

<b>World Bank Group</b>	<b>FY08</b>	<b>FY09</b>
IBRD	13.5	32.9
IDA	11.2	14.0
IFC	11.4+	10.5+
MIGA	2.1	1.4
<b>Total</b>	<b>38.2</b>	<b>58.8</b>

+Own account only. Excludes \$4.8 billion in FY08 and \$4.5 billion in FY09 mobilized through syndications and structured finance.

15. The WBG is among many actors seeking to respond to the crisis. Putting the response in a broader context, among the IFIs, IMF is currently providing around \$150 billion of crisis support to developing countries<sup>11</sup> (with a total capacity to lend up to \$750 billion).<sup>12</sup> Meanwhile, the European Investment Bank has increased its volume of lending from an annual average of around €50 billion to around €75 billion for 2009, mainly focusing its interventions in Europe, and the European Bank for Reconstruction and Development (EBRD) has indicated plans to increase its annual lending activities from €5 billion (approximately \$7 billion) to €7 billion (approximately \$10 billion). The African Development Bank (AfDB) also plans to substantially increase lending.<sup>13</sup> Moreover, many developing countries have been putting together stimulus packages.

16. Several mechanisms have been set up within the WBG to coordinate the response. The March Board papers mentioned a Working Group on the Financial Crisis Response and, for the VFF, an expanded GFRP Secretariat housed in the Sustainable Development Network (SDN), with oversight from a Steering Committee chaired by a Managing Director. There was no mention of any similar arrangements for the INFRA Platform, or of coordinating mechanisms with IFC and MIGA. In April 2009, IFC established its own Back Office Operational Team to coordinate the global initiatives that it is pursuing. With respect to other institutions, the World

<sup>11</sup> See [www.imf.org](http://www.imf.org)

<sup>12</sup> As a result of the crisis, IMF lending capacity was increased from \$250 billion to \$750 billion.

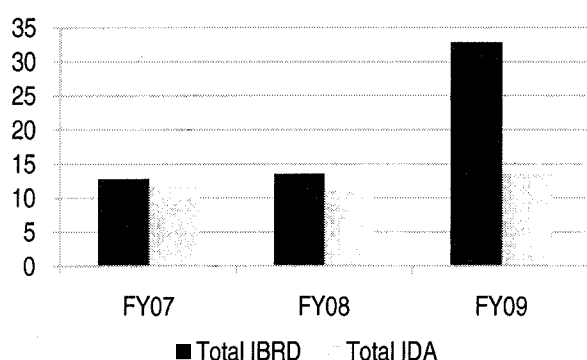
<sup>13</sup> As part of their crisis response package, EBRD, Inter-American Development Bank (IADB), and AfDB plan to expand their trade finance facilitation programs, for which IADB and AfDB will increase their trade finance facility limit to \$1 billion each in 2009. In addition, emergency liquidity funds were created by a number of these institutions to support domestic banks.

Bank, IFC, and MIGA have in recent months agreed to joint action plans with regional IFIs in ECA, Latin American and Caribbean (LAC) and Sub-Saharan Africa (SSA), although these plans do not commit the WBG to further financing beyond that outlined above.<sup>14</sup>

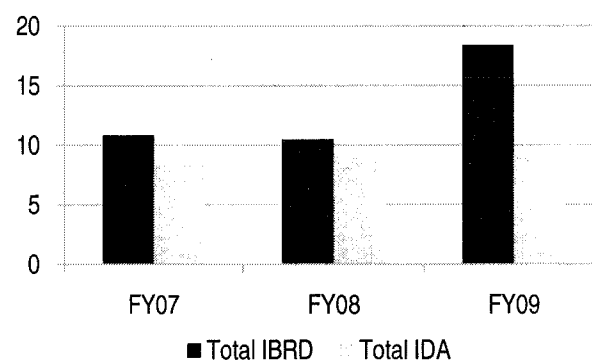
## WORLD BANK

17. The World Bank (WB) responded to the crisis mainly through a large increase in IBRD lending commitments from \$13.5 billion (FY08) to nearly \$33 billion (FY09). IDA commitments also hit a record high of almost \$14 billion in FY09 up by over 20 percent from the previous year.<sup>15</sup> IBRD gross disbursements increased by almost 80 percent to \$18.4 billion with nearly half of it coming from development policy lending. However IDA disbursements increased only slightly from \$9.1 billion to \$9.2 billion and IDA disbursements from development policy lending actually declined. The lending increases were highly concentrated in a few large, middle-income countries. IBRD lending to 11 countries in four regions (5 in LAC, 3 in ECA, 2 in EAP, and 1 in SAR) accounted for 82 percent of the total (Table 2)

**Figure 2: Total IBRD and IDA Lending Commitment (\$ billion), FY07-09**



**Figure 3: Total IBRD and IDA Gross Disbursements (\$ billion), FY07-09**



18. The WB has committed itself to becoming a “global knowledge bank” using knowledge to improve the development effectiveness of its work. In fiscal 2008, the Bank reiterated its focus on knowledge and learning, including it as one of six strategic directions. The WB has so far made a limited contribution to economic and sector work on the global economic crisis. One of the first pieces of work that the Bank conducted was a policy note, *The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens*, which provided an assessment of the countries that would be most exposed to poverty risks due to the crisis. The second significant work was a background paper for the G20 Finance Ministers and Central Bank Governors Meeting in London in March 2009. This paper, *Swimming Against the Tide: How Developing*

<sup>14</sup> These are, respectively, the Joint IFI Action Plan in Support of Banking Systems and Lending to the Real Sector in Central and Eastern Europe to meet the financial sector’s needs for capital and liquidity; the Multilateral Crisis Facility for LAC which is geared towards trade, infrastructure, protecting the vulnerable, and strengthening the financial sector; and the Joint Action Plan for Africa to facilitate trade, bank capitalization, infrastructure, microfinance, and agriculture development.

<sup>15</sup> World Bank. July 2009. Business Warehouse.

*Countries Are Coping with the Global Crisis*, summarized the impact of the crisis on WB client countries and the financing gap they face. Finally, *Global Development Finance 2009: Charting a Global Recovery*, has explored the broad approach needed to chart a global recovery.<sup>16</sup>

**Table 2: Countries with the Largest WB Lending Volumes in FY09 (\$ billion)**

Country/Len Instr Type	DPL	Investment	Total	Sector Boards of the Largest Loans
<b>EAP</b>				
China		2.4	2.4	Transport; Urban Development; Agriculture
Indonesia	2.9	1.3	4.2	Economic Policy; Governance; Private Sector Dev.
Vietnam*	0.5	0.6	1.1	Governance; Energy and Mining
<b>Total</b>	<b>3.4</b>	<b>4.3</b>	<b>7.7</b>	
<b>o/w IBRD</b>	<b>2.9</b>	<b>3.7</b>	<b>6.6</b>	
<b>ECA</b>				
Kazakhstan		2.1	2.1	Transport
Poland	2.6		2.6	Economic Policy; Social Protection
Turkey	1.3	0.8	2.1	Private Sector Dev.; Energy and Mining
Ukraine	0.5	0.4	0.9	Economic Policy and Transport
<b>Total</b>	<b>4.4</b>	<b>3.3</b>	<b>7.7</b>	
<b>o/w IBRD</b>	<b>4.4</b>	<b>3.3</b>	<b>7.7</b>	
<b>LCR</b>				
Argentina		1.8	1.8	Environment; Agriculture; Social Protection
Brazil	2.4	1.2	3.6	Governance; Environment
Colombia	0.6	0.7	1.3	Environment; Social Protection
Mexico	0.7	2.7	3.4	Private Sector Dev.; Social Protection
Peru	1.4	0.02	1.4	Economic Policy; Social Protection; Environment
<b>Total</b>	<b>5.1</b>	<b>6.42</b>	<b>11.5</b>	
<b>o/w IBRD</b>	<b>5.1</b>	<b>6.42</b>	<b>11.5</b>	
<b>SAR</b>				
India*		2.2	2.2	Private Sector Dev.; Health; Energy and Mining
Pakistan*	0.5	1.1	1.6	Economic Policy; Education
<b>Total</b>	<b>0.5</b>	<b>3.3</b>	<b>3.8</b>	
<b>o/w IBRD</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>AFR</b>				
Nigeria*		1.3	1.3	Social Protection; Agri; Health; Energy and Mining
Ethiopia*		1.1	1.1	Social Protection; Agri; Transport
<b>Total</b>	<b>0</b>	<b>2.4</b>	<b>2.4</b>	
<b>o/w IBRD</b>	<b>0</b>	<b>0</b>	<b>0</b>	

Note: Countries with a \* are either IDA or blend countries.

## IFC

19. IFC's response to the crisis has three components. First, it is seeking to increase the level of investments from its own account to around \$12 billion per year<sup>17</sup>—a modest increase of \$0.6 billion over FY08 commitments of \$11.4 billion. IFC fell short of this target in fiscal 2009, committing \$10.5 billion in new investments, \$0.9 billion (or 8 percent) less than in fiscal 2008. Commitments fell in all regions except Sub-Saharan Africa where they increased by 39 percent. Many countries that have been strongly affected by the crisis, such as Ukraine and Mexico, saw

<sup>16</sup> In addition there have been a few notes from PREM and Development Economics and Chief Economist (DEC).

<sup>17</sup> World Bank. 2009. *World Bank Group Operational Response to the Crisis*. SecM2009-0168.

substantial drops in IFC financing activities (reductions in commitments of a third and nearly a half, respectively).

20. The second and more significant component—driven by capital constraints that limit the extent to which IFC can increase investment from its own account—is to mobilize substantial resources—up to \$25 billion from others through six global initiatives covering trade (two initiatives), infrastructure, microfinance, bank recapitalization, and advisory services.

- *Trade*: Doubling the ceiling on the existing Global Trade Finance Program (GTFP), which directly supports banks providing trade finance, from \$1.5 billion to \$3 billion (and thereby supporting up to \$6 billion of trade annually through the rollover of funds). Second, establishing a Global Trade Liquidity Program (GTLP) of up to \$5 billion with IFC sharing risk on the trade portfolios of major international banks (supporting up to \$45 billion of trade over the expected lifetime of the program).
- *Infrastructure* (Infrastructure Crisis Facility): A debt facility of \$10 billion and an equity facility of \$1.5 billion to support 100 viable privately funded infrastructure projects facing temporary liquidity problems due to a decrease in commercial participation. It will also include advisory services to help governments design or redesign public-private partnerships (PPPs).
- *Microfinance* (Microfinance Enhancement Facility): A joint \$500 million facility with the German government that is expected to provide refinancing to more than 100 strong microfinance institutions in over 30 countries and will thereby 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),<sup>18</sup> that aims to support banks considered vital to the financial system of an emerging market country.
- *Advisory Services*: Up to \$60 million of new donor funding geared at improving the financial infrastructure, for instance through enhanced risk management, corporate governance, and the establishment of insolvency framework.

21. The enhanced mobilization efforts involve both private and public sector institutions, such as the Japan Bank for International Cooperation for the Bank Capitalization Fund and KfW in support of the Microfinance Enhancement Facility. As of June 2009, IFC had mobilized \$5 billion from other sources toward these initiatives, of which less than \$100 million had been disbursed.

22. Looking ahead, IFC is seeking to introduce other initiatives. These include a Debt and Asset Recovery Program, a private sector program of up to \$1.5 billion for assisting in a systemic clean up of distressed assets on the books of emerging market banks as a result of the financial crisis. IFC is also seeking Board approval for a Global Food Fund made up of a short-term liquidity facility of up to \$1.5 billion to provide working capital, trade, and export financing and an equity fund of up to \$0.5 billion for food and beverage production, processing, and related infrastructure. Finally, IFC is examining the possibility of establishing an Export Credit

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<sup>18</sup> 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 to co-invest in IFC equity transactions in Sub-Saharan Africa and Latin America and the Caribbean.



Agency Initiative, a trade-related program to encourage and facilitate the use of local banks and local currencies in ECA guarantee programs.

23. For the third component, IFC has been stressing careful management of its disbursed investment portfolio of around \$20 billion. IFC has assigned more investment staff to portfolio work supported by more regular portfolio reviews. In contrast to previous crises, IFC now has separate portfolio and new investment teams. Support to portfolio clients includes help with restructurings, as well as ad-hoc assistance in managing operations during the crisis. Meanwhile, to control costs, IFC imposed a hiring freeze in early 2009, which slowed recruitment growth and imposed a department “productivity tax” of 3 percent.<sup>19</sup>

## **MIGA**

24. MIGA’s response to the crisis is built around but not limited to a new global Financial Sector Initiative focused initially on ECA. Under this initiative, which was discussed with the Board in March 2009, MIGA will provide extended support to financial institutions seeking political risk insurance (PRI) 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 ECA 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, specifically the Joint IFI Action Plan in Support of Banking Systems and Lending to the Real Economy in Central and Eastern Europe. Also, 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).<sup>20</sup> In total, MIGA provided coverage to financial sector projects in the ECA 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 MIGA’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.

## **Evaluation Issues and Questions**

25. Based on the above, and the qualification that the FY11 work will cover more ground than the FY10 work (since more evidence will be available), key evaluative questions to be addressed in the reports produced over the next two years would include:

- ***Preparedness***
  - *Economic Analysis* – Did the WBG’s forecasts (in global reports and country analyses) anticipate the crisis, or some variation thereof?
  - *Strategic Readiness* – Did the WBG have in place—or was it in a position to quickly mobilize—the requisite knowledge base, staffing, budget resources, and financial headroom to respond quickly to client needs?

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<sup>19</sup> IFC. 2009. *IFC’s FY10 Business Plan and Budget*. IFC/R2009-0126.

<sup>20</sup> This action directly picks up recommendations made in *The World Bank Group Guarantee Instruments 1990-2007: An Independent Evaluation*. CODE2008-0037. April 23, 2008.

- **Relevance**

- *Needs Assessment* – How well have the needs of crisis-affected countries been assessed (and are they being re-assessed as the crisis unfolds)? Have vulnerabilities been adequately mapped to actions the WBG could take? Has the Bank operational model based on country assistance/partnership strategies and country demand taken into account the different abilities of countries to assess their needs for assistance and prepare requests for assistance?
- *Resource Allocation* – Is the focus of the response geared toward countries and clients most in need of support (i.e., those most affected by the crisis, and with the greatest financing gaps)? What have been the relative roles of country demand and the Bank's assessment of country needs and desirable resource allocation (supply aspects)?
- *Instrument Choice* – Are instruments and platforms, existing and newly established, relevant to needs? How have credit enhancement mechanisms been used in responding to the crisis?
- *Poverty Impact* – To what extent did the WBG's response maintain a strong focus on poverty reduction and the most vulnerable?
- *Climate Change and Infrastructure* – Does the crisis response incorporate aspects for handling the ongoing crisis of climate change? To what extent have long-term infrastructure programs been protected?
- *Role of WBG in the international aid architecture* – Is the WBG taking action that is complementary to the actions of others, i.e. governments, other IFIs, private sector? Are the actions consistent with the WBG's comparative advantages? Given the small size of WBG financing relative to the overall financing gap, is the WBG effectively leveraging its role for maximum relevance?

- **Implementation**

- *Speed* – Has the WBG been able to carry out crisis-related interventions in a timely and effective manner? Is the WBG appropriately handling any tensions between speed and quality?
- *Financial Capacity* – To what extent did financial capacity constraints affect the size, composition, and implementation of the WBG response?
- *Partnerships and Coordination* – How effective is the coordination among key partners? Do country governments have sufficient "ownership" of WBG programs and initiatives?
- *Internal Organization* – How do operational guidelines, policies, and procedures affect the degree of preparedness, inter-sectoral and inter-unit coordination, timeliness of response, and appropriateness of instruments? What other internal factors, formal or informal, are supporting or impinging on implementation?
- *Monitoring and Evaluation* – Has the WBG established clear results targets for its response and systems to monitor implementation speed and quality? Are adequate learning mechanisms in place to provide feedback and enhance results?

- **Early Outcomes and Prospects**

- *Meeting Objectives* – Are the WBG’s objectives for the crisis response on track to be achieved?
- *Instrument Effectiveness* – How effective are particular delivery mechanisms (the main programs across the WBG units) proving in practice?
- *Additionality* – Are clients and stakeholders satisfied with the quality and timeliness of WBG’s contributions? Is the WBG providing services that clients would otherwise not have received?
- *Debt Sustainability* – Are country debt burdens sustainable? To what extent did the WBG consider country absorptive capacity and future debt service capacity?
- *Indirect Effects* – Is the response having unintended consequences? Is the response likely to have a material impact on the global aid architecture?

## **Evaluation Scope and Methods**

### **SCOPE (WHAT IS BEING EVALUATED?)**

26. While the crisis is global, countries experience different circumstances and challenges, and responses by development institutions need to be country-specific and tailored to these challenges. Thus, the proposed evaluation will cover both the global and country-level aspects of the WBG’s response.

27. **Global Response.** At the global level, the evaluation will consider, first, the level of preparedness of the WBG. Second, it will assess the relevance of specific programs and initiatives introduced or expanded in response to the crisis. The relevance of the programs—and of the overall WBG response—needs to be evaluated in the context of the WBG’s role in the international aid architecture. Third, the evaluation will assess progress with the delivery of these programs and initiatives, including lending and knowledge-based activities in relation to objectives that have been established for the response. In so doing, it will look into each of the operational components of the response (across WB, IFC, and MIGA) and assess them separately, as well as considering coordination issues. Cooperation with IMF and regional development banks will also be reviewed and, to the extent possible, the evaluation will seek the views of these partners on the WBG response in addition to the views of country stakeholders.

28. **Country-level Responses.** Country-specific responses will be assessed selectively, based on the following criterias: (i) inclusion of countries where the crisis and/or the WBG response was particularly important in terms of impact or resources invested (pre- and post-crisis); (ii) an appropriate mix of country types (BRICs, MICs, LICs,<sup>21</sup> fragile states); (iii) the interventions cover several response instruments used by the WBG; and (iv) to maximize the availability of evaluative evidence, countries selected will include some with early interventions in response to the crisis (although evaluation of “late responses” is also important to assess the evolution in the responses

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<sup>21</sup> BRICs refers to Brazil, Russia, India, and China. MICs is for middle-income countries, and LICs is for low-income countries.

to the crisis). Although the lending increase initially was largely directed to middle-income countries, the country selection will include a significant component of IDA countries. This is particularly important considering that by mid-2009 there are already signs of recovery among several middle-income countries while low-income countries are still facing important challenges because official aid has fallen and these economies are vulnerable to swings in commodity prices. Table 3 provides a preliminary set of countries that align with these criteria. For these 10 countries, IEG will produce individual Country Case Study Reviews, using the questions outlined in the preceding section.

29. The degree and depth of coverage may vary between countries. For example, the evaluation would cover all DPLs approved as part of the crisis response (including DPL deferred drawdown options (DDOs), emergency DPLs, and regular DPLs) whereas operations under the VVF, INFRA, and private sector platforms will be reviewed selectively. The Country Case Study Reviews will take into account projects and programs in place at the time of the crisis, including IFC investments and Advisory Services, and MIGA guarantees. Freestanding independent evaluations (PPARs) of major DPLs will constitute a major source of lessons and insights for the overall evaluation.

**Table 3: Selection of Country Case Studies by WBG**

Region/Country	WB		IFC	MIGA
	IBRD	IDA		
<b>ECA</b>				
Ukraine	X		x	x
Hungary	x			x
Georgia		x	x	x
<b>LCR</b>				
Mexico	X		x	
Colombia	X		x	
<b>EAP</b>				
Indonesia	X		x	
Vietnam		x	x	
<b>SAR</b>				
Bangladesh		x	x	
<b>MNA</b>				
Jordan	X		x	
<b>AFR</b>				
Nigeria		x	x	

## **METHODS (HOW WILL IT BE EVALUATED?)**

30. The proposed evaluation is similar in most respects to other IEG evaluations, except for its timing. As is normally the case, the proposed evaluation will take a mixed methods approach. It will combine literature and document review, semi-structured and in-depth interviews,

surveys, program and project analyses, and country case studies. It will also examine performance against stated WBG objectives (at the global, program, country, and operation level), using IEG's normal evaluation criteria.

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

32. The evaluation will also involve preparation of background evaluations of specific components of the crisis response (e.g., on specific programs, countries, or operations), and will rely on other freestanding evaluations of relevant activities, in the same way in which sector evaluations use findings from project evaluations in the sector, and country assistance evaluations use findings from a variety of individual evaluations for a country.

33. The main difference from other evaluations is in its timing. Given the importance of the issues addressed and the need for timely feedback to the Executive Directors and Bank management, the evaluation will start during implementation of the activities being evaluated, although about one year after the first responses to the crisis were introduced. This means that the evaluation and its subject matters (objectives, instruments, delivery mechanisms, outputs, and outcomes) will evolve simultaneously. The evaluation is thus, to some extent, formative in its early phase, as its intention is to help improve program performance by informing decisions about relevant programs and their component parts and processes.<sup>22</sup> Examples of formative evaluation work carried out by other organizations include the U.S. General Accountability Office's ongoing bimonthly reviews of progress with the U.S. stimulus plan;<sup>23</sup> and the U.K. National Audit Office's evaluation of progress with the London Underground PPP arrangements, one year into the 30-year contracts.<sup>24</sup> As a consequence, the evaluation remains firmly evidence-based while focusing more on *outputs and outcomes than on impacts*.

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<sup>22</sup> Formative evaluation is a method of judging the worth of a program while the program activities are emerging or evolving. Contrast with summative evaluation methods, which involve judging the worth of a program at the end of the program activities.

<sup>23</sup> *American Recovery and Reinvestment Act: GAO's Role in Helping to Ensure Accountability and Transparency*. GAO-09-453T. March 5, 2009.

<sup>24</sup> *London Underground: Are the Public Private Partnerships Likely to Work Successfully?* UK National Audit Office, June 17, 2004.

## Outputs and Timing

34. Following on the FY09 evaluation of the WBG response to past crises, IEG will produce two main deliverables on the current crisis response:<sup>25</sup>

- FY10: *Early Lessons for the Implementation of the WBG Crisis Response*, based largely on the country case study reviews and an early review of the global dimensions of the response.
- FY11: *Results and Lessons Emerging from WBG Crisis Response Activities during FY09-11*.

35. During FY10 and FY11, there will also be more informal communications focused on selected aspects of the evaluation. These interim outputs would provide timely feedback to the Executive Directors and Bank management to help in deliberations and adjustments, if needed, to the crisis response. The specific format of these informal progress notes will be tailored to the availability of initial findings on some aspects of the evaluation as well as to the points in time when this feedback may be more useful. The plan for specific deliverables, their timing and format will be flexible given the uncertainty surrounding the duration of the crisis and its impacts in different parts of the world.

## Study Team

36. The study will be task managed by Ismail Arslan (IEGWB) and Daniel Crabtree (IEGIFC). Other team members include Federico Arcelli, Ann Flanagan, and Sarwat Jahan. The team will also contain several senior consultants including Javed Hamid, Manuel Penalver-Quesada, and Joanne Salop, who will contribute to the main evaluation and will help prepare the individual country case studies. The peer reviewers are Johannes Linn and Guy Pfeffermann. The work will be conducted under the general guidance of a Steering Group, including Marvin Taylor-Dormond, Ali Khadr, and Stoyan Tenev.

37. The evaluation team will interact closely with other IEG teams working on tasks relevant to the proposed evaluation (sector studies and evaluations, country assistance evaluations, and project performance assessment reports) to avoid duplication of effort and maximize synergies. Coordination with the IMF's Independent Evaluation Office, which is preparing an evaluation of the IMF activities in the period leading to the global economic crisis, is also ongoing.

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<sup>25</sup> IEG may also return to the subject of the crisis response in future years, for a more long-term assessment of impact. This kind of phasing of reports is similar to the approach IEG is taking with regard to the evaluation of WBG efforts to address climate change.