



The World Bank Group's Response to Economic Crises: Views from IEG

**Independent Evaluation Group
World Bank / IFC / MIGA**

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Crisis Support is an Important WBG Activity



The recent global crisis had a severe impact on WBG borrowers

- ❖ Global growth slowdown: 3.9 % to 2.1%
- ❖ Advanced economies: 2.6% to -3.3 %
- ❖ Developing Bank clients: 6 % to 1 %
- ❖ Europe and Latin America: 7 % to -2 %

With a lasting impact on poverty

- ❖ Estimated 50-64 million more poor people

Motivating a strong response from the WBG

- ❖ 117 countries received Bank crisis support during 2009-10, compared with 17 during 1993–2003

IEG has Evaluated the WBG Crisis Response



The mandate of the Independent Evaluation Group is to

- ❖ Understand, objectively, what worked and what didn't, in WBG support; and
- ❖ Identify and disseminate lessons

IEG has prepared a series of evaluations on WBG Crisis Response

- ❖ **Review of WBG Response to Past Crises (2009)**
Review of 17 Country Case studies
- ❖ **Phase I Evaluation of WBG Crisis Response (2010)**
Real time evaluation focused on volume, speed, and early results
- ❖ **Phase II Evaluation of WBG Crisis Response (2011)**
Motivated by Phase I findings, focused on strategy, instruments, and results in key sectors

WBG Response to Past Crises



WB response was characterized by

- ❖ Sharp spikes in lending, with volumes soon reverting to pre-crisis levels, and
- ❖ Strong reliance on fast-disbursing (adjustment) lending
- ❖ Modest contribution relative to total size of countries' rescue packages

IFC investments in crisis countries declined, on average, by 40 % in crisis years

- ❖ And returned to pre-crisis levels in three years

WBG activities were generally successful in supporting financial and public sector reforms, but poverty focus was insufficient

Lessons from WBG Response to Past Crises



Speed of response matters

Quality and focus are crucial for good outcomes

- ❖ It is vital to attend to poverty dimensions from the outset
- ❖ Quality of crisis operations was an issue in some cases

Financing modalities matter

- ❖ Additional instruments may be needed

Coordination with partners is critical

- ❖ Both external and internal

WBG Response to the 2008-9 Global Crisis (I)



WBG crisis response objectives (Mar 2009):

- ❖ Protecting the poor, maintaining infrastructure, Sustaining the private sector

Quick and sizable response, as in past crises

- ❖ Modest relative to overall packages
- ❖ Accelerations in processing efficiency and disbursement speed
- ❖ Mostly to middle income countries
- ❖ IDA – frontloading and special initiatives

Readiness was helped by

- ❖ A strong initial WB financial position
Current knowledge, ongoing dialogue

Overall attention to poverty was greater than in previous crises

- ❖ Although with gaps in central guidance and monitoring

WBG Response to the 2008-9 Global Crisis (II)



Review of WBG support relative to multiple dimensions of stress

- ❖ **And relative to other IFIs and MDBs**

Review of lending terms and instruments

And design and results in key sectors

- ❖ **Fiscal, financial and social protection**

More in-depth review of IFC and MIGA responses

WBG Response to the 2008-9 Global Crisis



While there was an increase in WB lending to MICs severely affected by the crisis, there were also important exceptions

- ❖ For instance, lending to Ukraine, Turkey and Mexico increased
- ❖ But so did lending to India and Indonesia, which were not severely affected

WB crisis support relied on existing instruments, and was lower in cost than other IFIs

- ❖ Mostly fast-disbursing loans, some with deferred draw-down options, long maturities
- ❖ Other IFIs used more crisis-focused instruments

Partly as a result of large and low cost volumes of lending:

- ❖ IBRD headroom has been reduced

WBG Response to the 2008-9 Global Crisis



The relevance and quality of the WB response varied

- ❖ Main determinant appears to be the quality of prior engagement with the country in question

Support for social protection was swift

- ❖ Though targeting was limited by country capacity

IFC's investments were flat in response to the crisis

- ❖ Reflecting a strategic choice to protect its portfolio
- ❖ Had capacity for moderate counter-cyclical increase

IFC introduced relevant new crisis initiatives

- ❖ But they required significant set-up time
- ❖ And lagged in implementation

MIGA's response was focused and closely coordinated
Supported key financial institutions in E. Europe

- ❖ Yet, it could have increased guarantees further
- ❖ In line with other political risk insurers

Overall Lessons for Future Crisis Response



Although very proactive during the global financial crisis, the World Bank Group needs to give thought to its role and strategy in future crises.

- ❖ Benefits of the Bank's country focus go hand in hand with the need for a cross-country, global strategy to balance needs

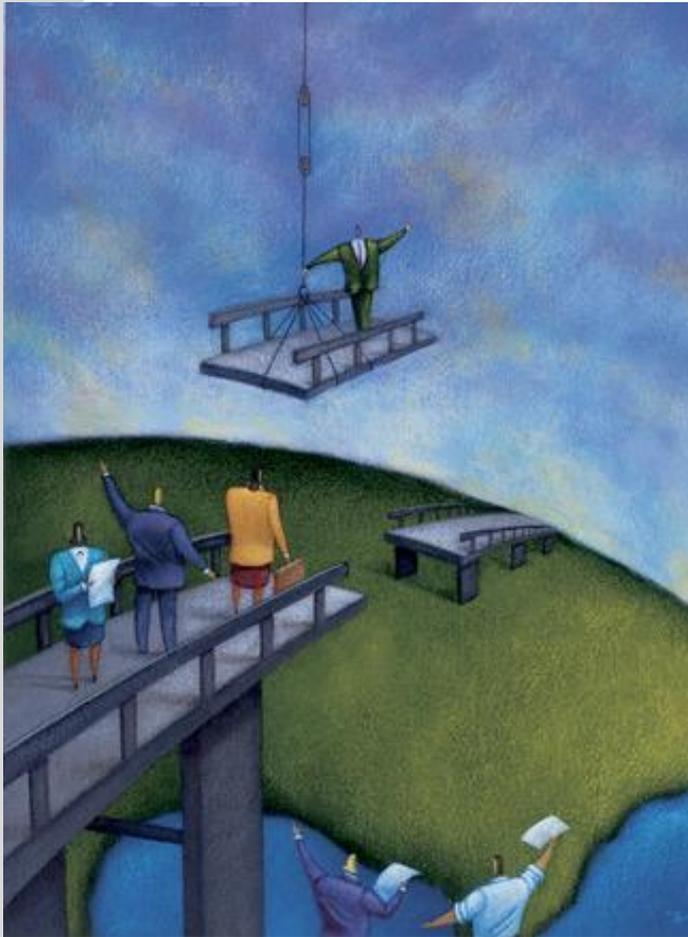
Crisis engagement strategy requires consideration of the role of the Bank relative to its partners

- ❖ Especially in severely affected countries

Early warning, preparedness and timeliness, including an eye on long-term capital adequacy, are essential for the WB, IFC and MIGA

- ❖ New lending instruments could be considered
- ❖ Expertise in key areas should not be allowed to decline during non-crisis periods

Going Forward



A strategic roadmap for crisis engagement is a priority

- ❖ Ongoing, systemic analysis of stress factors
- ❖ A decision-making process for blending country-level responses within a global strategy to apply scarce resources where they are most effective
- ❖ A clear rationale, modalities, and instruments for supporting less-affected countries

A framework for coordination with other IFIs

A review of instruments for effective crisis support and meaningful medium term development

- ❖ In the context of possibly constrained overall capital, income and allocations.

At IFC, greater reliance on existing arrangements

- ❖ And better assessments of potential risk

At MIGA, business development

- ❖ And geographic asset diversification