Chapter 3

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Once the global economic crisis started, it unfolded and spread very quickly. But acknowledgment of the crisis by the development community took some time. International financial markets shut down almost overnight following the collapse of Lehman Brothers in mid-September 2008, but it took a while for the global community—including the World Bank Group—to realize the full implications of what was happening.

The World Bank Group's Response

Once the global economic crisis started, it unfolded and spread very quickly. But acknowledgment of the crisis by the development community took some time. International financial markets shut down almost overnight following the collapse of Lehman Brothers in mid-September 2008, but it took a while for the global community—including the World Bank Group—to realize the full implications of what was happening.

The Bank Group responded in waves. Its initial response focused narrowly on increasing Bank lending, especially from middle-income borrowers. As the scale of the demand became apparent, the Bank took measures to ration available IBRD capital and get Board approval for an IDA Fast-Track Facility, while IFC began to develop global crisis initiatives to mobilize funds and leverage its role and impact (Development Committee 2008a). IFC management had already recognized the potential for countercyclical investments in the event of a downturn, especially in MICs, alongside prudent management of the existing investment portfolio (see IFC 2007, 2008).

Over time, more formal statements set out the linkages across programs, including those between Bank and IFC programs. A three-year strategy statement issued in March 2009 highlighted two main strands of the Bank Group's operational response. In the first strand, the Bank Group was seen to be stepping up its financial assistance to help its member countries mitigate the impact of the crisis, establishing magnitudes of $100 billion for IBRD, $42 billion for IDA, and $36 billion for IFC (alongside funds mobilization of around $24 billion). In the second strand, it defined a three-pillar response structure designed to protect the most vulnerable against the fallout of the crisis. This was to be done through the existing Global Food Response Program and a new Rapid Social Response Program by maintaining long-term infrastructure investment programs through the existing Infrastructure Recovery and Assets Platform and by sustaining the potential for private sector–led economic growth and employment creation through IFC. These pillars were positioned in the broader context of an over-arching focus on macroeconomic stability at the core of the crisis response.

Capital headroom had a significant influence on the Bank Group response, and accounted for differences in the level and approach to financing across the IBRD, IDA, IFC, and MIGA. The capital positions of the different parts of the Bank Group were widely divergent coming into the crisis. Given low demand from middle-income borrowers for IBRD resources in the pre-crisis period, the IBRD was able to increase its annual lending nearly threefold during fiscal 2009–10. IDA was able to increase lending by a more modest 25 percent within the constraints of its funding availability.

IFC's starting situation was very different. It faced equity write-downs and increasing nonperforming loans from investments made during its pre-crisis expansion and had committed additional transfers to IDA. IFC conservatively estimated that it could invest around 5 percent more per year in fiscal 2009–11 than in 2008 (this is conservative, given rating agency assessments of IFC's capital adequacy and experience showing the financial and development benefit of IFC investing during a crisis).[1]

Differences in approaches to pricing were also a factor in the differing responses of IBRD and IFC, because these differences affected demand by middle-income clients for Bank Group financing. IFC's loan pricing is built on the premise that IFC should complement and not displace private capital. Its pricing factors in project and country risk premiums to the extent that benchmarks are available.[2] As a result, over the crisis period loan prices tended to rise most in countries hit hardest by the crisis. The IBRD, in contrast, does not discriminate among borrowers. The IBRD had historically low loan pricing when the crisis hit, having reduced the cost of new loans by an average 25 basis points over the LIBOR (London interbank offered rate) benchmark in September 2007 (returning the all-in cost of new borrowing back to 1998 levels) (World Bank 2007). This was followed in February 2008 by an increase in maximum tenors—to 30 years—for all new loans and guarantees. Loan pricing was adjusted upward again only in August 2009, this time by 20 basis points.[3]

The Bank Group response was countercyclical overall, but on balance the responses of IFC and MIGA were not countercyclical. Table 3.1 shows the aggregate Bank Group com-

TABLE 3.1	World Bank Group Commitments, Fiscal 2008–10 (US$ billions		
World Bank Group	**2008**	**2009**	**2010**
IBRD	13.5	32.9	44.2
IDA	11.2	14.0	14.5
IFC	11.4[a]	10.5[a]	12.6[a]
MIGA	2.1	1.4	1.5
Total	38.2	58.8	72.2

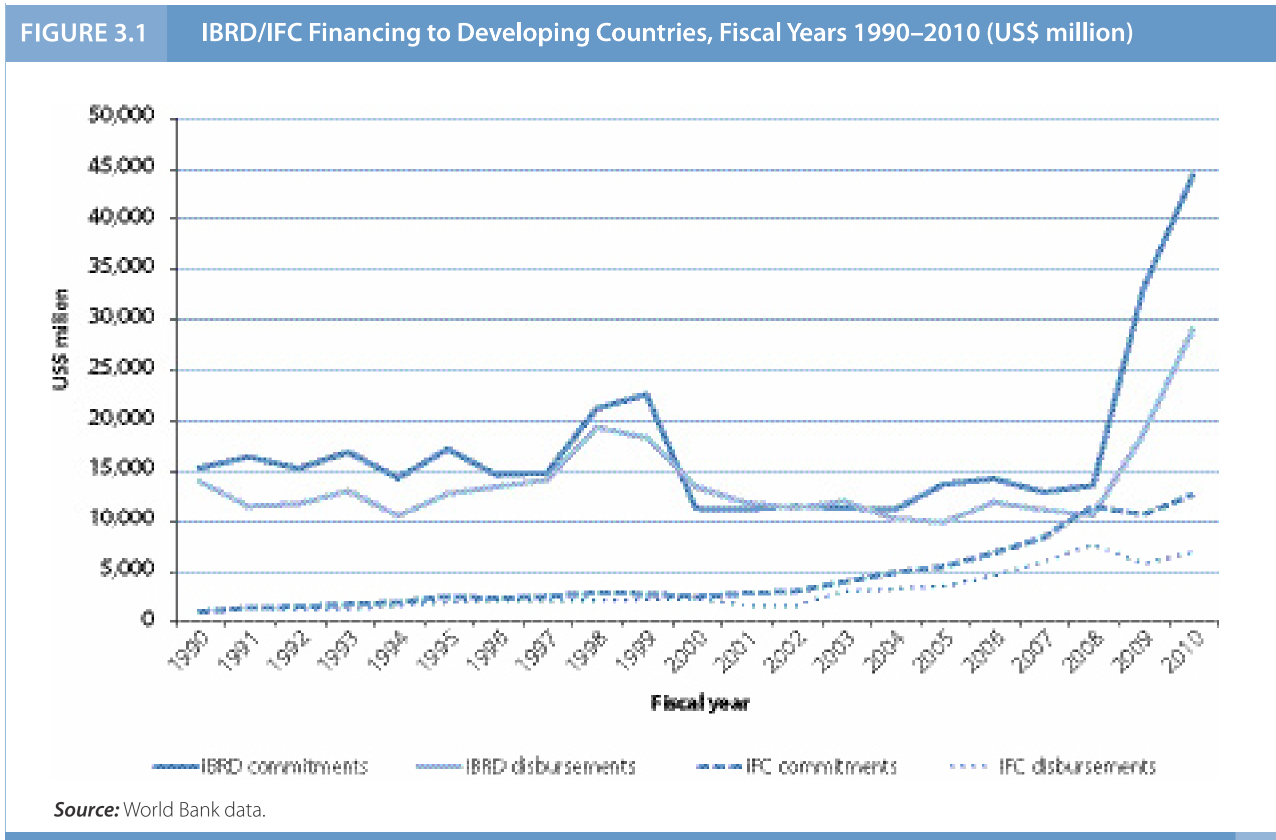
Source: World Bank data.

a. Own account only. Excludes $4.8 billion in fiscal 2008, $4.5 billion in 2009, and $5.4 billion in 2010 mobilized through syndications and structured finance.

mitments for the evaluation period of fiscal 2009 and 2010, and for 2008 for comparison. It reveals sharp differences in response across Bank Group institutions: dramatically increased IBRD lending, moderately higher financing through IDA, and IFC and MIGA responses that were not countercyclical overall.[4] Figure 3.1 provides a longer-term perspective for the IBRD and IFC, highlighting the flat demand for IBRD financing in the pre-crisis period, which generated financial headroom for a more substantial response, and growth in IFC's business that limited capital headroom when the crisis struck.

The Bank Group has disbursed more than any other IFI—including the IMF—in this crisis. Table 3.2 compares aggregate Bank Group commitments and disbursements during fiscal 2009–10 with those of the IMF and other IFIs. It shows that Bank Group commitments were below those of the IMF, but that Bank Group disbursements exceeded those of the IMF. The relatively lower IMF disbursements compared with commitments reflect, in part, the contingent nature of much of the IMF's support, as well as the size of the outstanding Bank Group portfolio at the start of the crisis. The flows of other IFIs were proportionately less than those of the Bank Group, but with broadly similar relationships between commitments

FIGURE 3.1 IBRD/IFC Financing to Developing Countries, Fiscal Years 1990–2010 (US$ million)



Source: World Bank data.

TABLE 3.2	IFI Financial Flows, Fiscal Years 2009–10 (US$ billion)	
IFI	Gross commitments	Gross disbursements
World Bank Group (w/o MIGA)	128.7	80.6
IMF	219.0	67.0
Other IFIs	81.7[a]	56.4 [a]

Sources: World Bank Group, IMF, ADB, EBRD, IADB, and AfDB data.

a. Other IFI data through end-June 2010; includes Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), and African Development Bank (AfDB).

and disbursements. Bilateral development assistance also increased, by nearly $20 billion between 2007 and 2009.

World Bank Response

The analysis of the World Bank response focuses on evidence related to two main evaluation questions: What did the Bank do? And how did the Bank do it? To help answer these questions, this section of the chapter first examines trends in lending, special initiatives, and analytic and advisory activities (AAA). It then examines the evidence on the Bank's internal crisis readiness and the external coordination of its crisis-response activities.

Financial Response

Lending Volumes

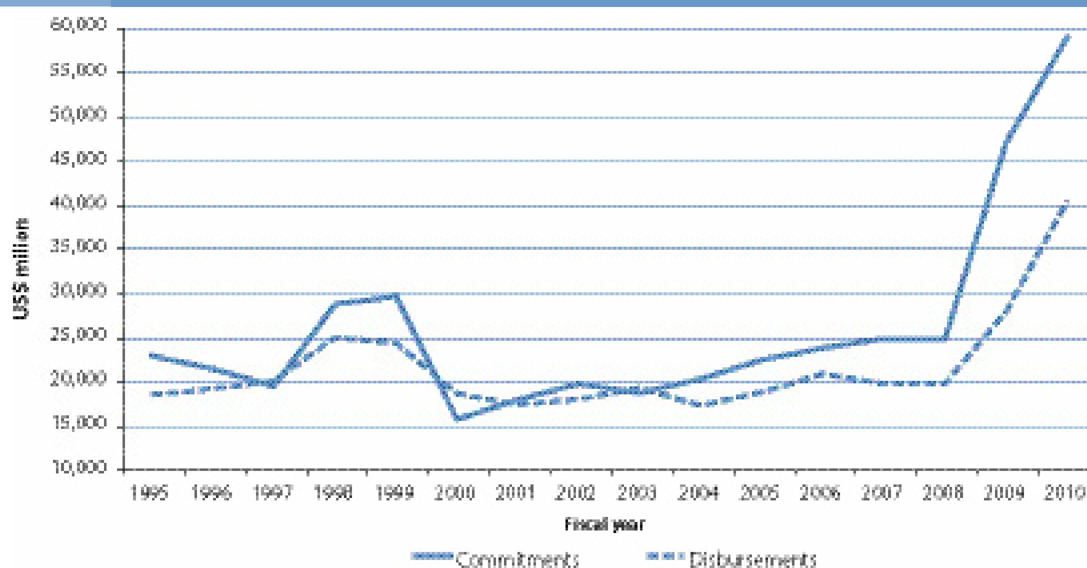
In nominal terms, fiscal 2009 commitments and disbursements broke Bank records, and fiscal 2010 broke the 2009 record.[5] These developments were driven largely by IBRD support to middle-income borrowers. IDA support to LICs was considerably smaller than the IBRD response, but in absolute terms it was also strong.

New commitments in fiscal 2009–10 were 114 percent above those of fiscal 2007–08. IBRD commitments rose by 193 percent between the two periods, and IDA commitments by 24 percent. This pattern—of a large IBRD response and a smaller IDA response—is similar to the Bank's response to the East Asian crisis (fiscal 1998–99).

The increase in Bank disbursements—a more relevant measure of the Bank's crisis response—lagged behind commitments. Disbursements in fiscal 2009–10 were 73 percent above their 2007–08 level. They were at record levels in fiscal 2009 and topped those levels in fiscal 2010, driven, as with commitments, by IBRD transactions with MICs. Of the $68.1 billion of Bank disbursements for fiscal 2009–10, about 57 percent ($38.8 billion) were on "new" commitments (approved in fiscal 2009–10), and 43 percent ($29.3 billion) on "old" commitments (approved before fiscal 2009–10).

There were also differences between IBRD and IDA. Sixty-six percent of IBRD disbursements were from new commitments, while only 37 percent of IDA disbursements were from new commitments. For the old commitments (mostly investment loans), there is no evidence of faster disbursements than in previous years or of attempts to speed them up. The large majority of the disbursements from new com-

FIGURE 3.2 World Bank Commitments and Disbursements: The Long View (US$ million)



Source: World Bank data.

mitments are from development policy operations (DPOs), as discussed later in this chapter. [6]

Regional and Country Focus

Reflecting developments at the country level, the Regional shares of Bank lending shifted significantly during the fiscal 2009–10 crisis period (table 3.3)**.** In commitments, the shares of the Latin America and Caribbean and Europe and Central Asia Regions—where the crisis hit the hardest—rose during fiscal 2009–10 compared with previous years. The commitment share of the Sub-Saharan Africa and East Asia and Pacific Regions declined, the share of the Middle East and North Africa remained broadly unchanged, and the share of South Asia declined in fiscal 2009, before bouncing back in 2010.

The increase in the shares of Latin America and the Caribbean and Europe and Central Asia is an IBRD story, largely of DPOs, but also of quick-disbursing investment loans. The decline in the Sub-Saharan Africa share reflects the sharp increase in IBRD lending relative to IDA, rather than any diminution of lending to the Region. Sub-Saharan Africa's fiscal 2010 bounce, the product of the April approval of a large ($3.75 billion) IBRD loan to South Africa, is shown in table 3.3. For East Asia and the Pacific, the fall reflects declining shares of both IBRD and IDA lending. The changing year-to-year pattern in South Asia reflects movements of both the IBRD—with developments in India—and IDA—with changes in India and Pakistan. For Sub-Saharan Africa, East Asia and the Pacific, and South Asia, Regional shares of disbursements have moved less than commitments. Disbursements have been stabilized mainly by the Bank's large, slow-disbursing portfolio of investment lending, approved in previous years. However, the increased commitment shares of Latin America and the Caribbean and Europe and Central Asia carried over to disbursements, reflecting the heavy use of quick-disbursing instruments in the Bank's crisis response in the two Regions.

TABLE 3.3 Regional Shares of Bank Lending Commitments and Disbursements (percent)

Region	Fiscal year 2007	2008	2009	2010
Commitments				
Sub-Saharan Africa	23	23	17	19
East Asia & Pacific	16	18	17	13
Europe & Central Asia	15	17	20	18
Latin America & Caribbean	19	19	30	24
Middle East & North Africa	4	6	4	6
South Asia	23	17	12	19
Disbursements				
Sub-Saharan Africa	20	24	16	15
East Asia & Pacific	17	18	17	14
Europe & Central Asia	15	16	19	20
Latin America & Caribbean	19	17	29	29
Middle East & North Africa	9	6	5	6
South Asia	21	18	14	16

Source: World Bank data.

A changing Regional distribution of IBRD lending had also been a pattern in the East Asian crisis, when affected MICs turned to the Bank as financial markets closed to them. But recent developments differed from that pattern in two respects. First, this time IBRD *investment* lending has also been strong in Europe and Central Asia and Latin America and the Caribbean—this did not happen among middle-income borrowers in fiscal 1998–99. Second, East Asia and Pacific countries (except Indonesia and Vietnam) were much smaller users of DPOs this time, reflecting their relatively lower exposure to this crisis.[7] The jump in South Asia's fiscal 2010 IBRD commitment share reflects a fully disbursed $2.0 billion DPO to India for financial sector reform and $3.3 billion in investment lending commitments, although little of this commitment has disbursed (which explains the failure of South Asia's disbursements to match the increase in its share of commitments).

For the Bank as a whole, the increase in lending went to all country groups, but was much greater for countries that experienced large adverse impacts from the crisis, with the differences especially pronounced for disbursements. The evaluation divided all borrowing countries into three groups according to the impact of the crisis. Those with a decline in GDP growth of more than 5 percent between the pre-crisis (2006–07) and post-crisis periods (fiscal 2009–10) were classified as "most-affected" countries. Bank disbursements to this group, which includes 29 countries, increased by 133 percent between the pre- and post-crisis periods. Bank disbursements to the 51 countries classified as "least-affected" (those where GDP increased or fell by less than 2 percent) increased by only 30 percent between the two periods. For the "moderately affected" countries, the increase was 82 percent.

The results outlined in table 3.3 are very different when IDA and IBRD lending are considered separately. For the IBRD, the distribution is similar to that of the Bank as a whole. The increase in disbursements was 146 percent for

the most-affected countries, and a much smaller 77 percent for the least-affected countries. The average increase in IBRD disbursements between the pre- and post-crisis periods was 125 percent. For IDA, however, the increase in disbursements differed little across the three groups of countries. Disbursements to the most-affected countries increased by 14 percent, to the moderately affected countries by 20 percent, and to the least-affected countries by 15 percent. The average increase in IDA disbursements between the pre- and post-crisis periods was 17 percent.

The evaluation Approach Paper and subsequent IEG reporting to CODE highlighted developments in 13 MICs, which together accounted for about 70 percent of IBRD lending during the pre-crisis period (IEG 2009a,c). During the fiscal 2009–10 crisis period, their combined share of IBRD lending rose to 75 percent. Together, the 13 countries accounted for 77 percent of the increase in IBRD commitments over the period, with 2 of the 13 countries—Mexico and Indonesia—accounting for 29 percentage points of the increase. These countries differed fundamentally in the degree to which they were affected by the crisis. Mexico was among the most crisis-affected, and Indonesia among the least.[8] However, Indonesia sought to increase its engagement with the Bank as part of an explicit crisis-prevention strategy (see chapter 4). Three of the 13 countries—Brazil, India, and Poland, which were among the moderately affected countries—accounted for another 28 percent of the overall increase (see appendix tables A4 and A5).

Sectoral and Thematic Focus

Five sectors—economic policy, social protection, the financial sector, infrastructure, and environment—accounted for almost all of the $56.2 billion increase in lending commitments and $28.8 billion in disbursements in fiscal 2009–10 compared with fiscal 2007–08. As discussed below, infrastructure accounted for the largest increase in lending commitments, reflecting a very strong outturn in the fourth quarter of fiscal 2010, and economic policy for the largest increase in disbursements. These relativities are in line with the differential timeframes and instruments—with infrastructure finance largely focused on the medium/long term and delivered through investment lending, while economic policy support was more focused on the short term and delivered through DPOs.

- ***Economic policy*** accounted for 23 percent of the increase ($13.1 billion) in Bank commitments and 28 percent of the increase ($8.1 billion) in disbursements, driven by the increase in DPOs. These operations supported policy reforms aimed at improving fiscal sustainability, the quality of public expenditures, and external competitiveness in countries large and small, such as Brazil, Guatemala, Indonesia, Iraq, Jamaica, Mauritius, Serbia, Tunisia, and Ukraine. In addition, lending operations in Poland, Turkey, and Vietnam provided support for labor market improvements.
- ***Social protection*** accounted for 13.3 percent of the increase ($7.5 billion) in commitments, including DPO and investment lending support for targeted social protection programs in countries such as Bosnia and Herzegovina, Bulgaria, Colombia, Ethiopia, Latvia, Mexico, Nepal, Pakistan, Panama, and the Philippines. However, support for social protection was concentrated in a few large loans, and almost 60 percent of the support was directed to three IBRD countries (Colombia, Mexico, and Poland) and one IDA country (Ethiopia). In addition, a number of DPOs classified as economic policy included social protection components, including DPOs in

Photo courtesy of Ray Witlin/World Bank.

Armenia, Croatia, El Salvador, Ghana, Indonesia, Iraq, Jordan, Macedonia, Poland, Romania, Serbia, Turkey, and Vietnam.

- The ***financial sector*** accounted for 16 percent of the increase ($8.8 billion) in commitments. Most of this lending was approved in fiscal 2010 and supported financial sector development or reform in Hungary, India, Latvia, Mexico, Nigeria, and Turkey. These operations were both DPOs and credit lines, and the evaluation's preliminary assessment raised several questions about these operations for further review in Phase II of the evaluation.
- ***Infrastructure*** accounted for 29 percent of the overall increase in Bank commitments ($16.4 billion), with much of it coming in the fourth quarter of fiscal 2010. The increase was due primarily to increased investment lending commitments of $4.0 billion for transport and $11.1 billion for energy, driven by large loans to Egypt, India, Kazakhstan, Mexico, South Africa, and Turkey. Infrastructure accounted for a much smaller share (about 18 percent) of the increase in disbursements.
- ***Environment*** accounted for 6 percent of the increase in commitments ($3.4 billion) and included green programs in Brazil, Colombia, Mexico, and Peru, among others.

Box 3.1 provides details on the social protection and infrastructure sectors, because they are also covered by Bank special crisis-response initiatives. It also describes the Global Food Response Program (GFRP), for which the lead sector, Agriculture and Rural Development, lost ground in relative terms during the crisis period, with commitments rising by $1.7 billion in fiscal 2009–10 compared with 2007–08, and disbursements flat.

Lending Instruments and Modalities

During fiscal 2009–10, investment lending accounted for 61 percent of commitments and 53 percent of disbursements, while DPOs represented 39 percent and 47 percent, respectively. However, the shares are very different for IBRD and IDA (box 3.2). For the IBRD, DPOs accounted for 47 percent of commitments and 56 percent of disbursements, while for IDA, DPO commitments remained below 25 percent and disbursements below 30 percent. Similar patterns, with a strong IBRD development policy lending response and a limited IDA response—characterized the Bank's response to the East Asian crisis.[9]

DPO commitments totaled $41.3 billion during fiscal 2009–10, and disbursements $31.7 billion, of which $22.9 billion was for new commitments approved during the period.

IBRD DPO commitments in fiscal 2009–10 totaled $36.1 billion, representing a fourfold increase over fiscal 2007–08. The fiscal 2009–10 total included $4.9 billion that used the deferred drawdown option (DDO), of which $1.1 billion has been disbursed. Of the $31.2 billion in regular DPOs, $17.7 billion has been disbursed. These developments reflect large IBRD DPO commitments to Brazil, Colombia, Hungary, India, Indonesia, Mexico, Peru, Poland, Turkey, and Ukraine, in several cases including use of the DDO, which was also used in smaller operations for Bulgaria, Costa Rica, and Mauritius. Through the end of fiscal 2010, only one operation—the Latvia Safety Net and Social Sector Program—had been approved by the Board as a Special Development Policy Loan.[10]

In sharp contrast, IDA DPO commitments totaled $5.2 billion over the period, a decrease of 2.4 percent over fiscal 2007–08. Over half of the total was in credits to four countries—Nigeria, Pakistan, Tanzania, and Vietnam—with DPOs also to a number of other countries in Sub-Saharan Africa (Burkina Faso, Côte d'Ivoire, Ghana, Mozambique, and Rwanda, among them) and South Asia (Afghanistan, Bangladesh, Bhutan, and the Maldives). Ten out of 14 operations approved to date under the IDA Fast-Track Initiative, launched in late 2008, have been DPOs (World Bank 2008c).

IBRD investment lending commitments in fiscal 2009–10 amounted to $41 billion, an increase of 119 percent over fiscal 2007–08. Among these, there have been some very large investment operations that have disbursed very little, such as the Kazakhstan $2,125 million Southwest Road Loan. That loan, which had long been in the lending program as a $100 million operation, increased 21-fold just before negotiations. More recently, the $3.75 billion South African Eskom Investment Support Loan has disbursed under $10 million, though it became effective quickly after approval in April 2010.

IDA investment lending commitments in fiscal 2009–10 totaled $23.4 billion, an increase of 31 percent over fiscal 2007–08. About half of this amount ($12.4 billion) went to six countries—Bangladesh, India, Nigeria, Ethiopia, Pakistan, and Vietnam. IDA investment lending disbursements totaled $15.5 billion, of which $3 billion was for operations approved during fiscal 2009–10, with $12.5 billion for portfolio operations approved in earlier years.

Analytical Response

Corporate Strategy and Communications

Corporate communications have said little about the Bank's analytic response. The Bank's Web site states that analytic work was central to its crisis response, yet it pays far greater attention to the financial response (see World Bank 2010b).

BOX 3.1 SPECIAL THEMATIC CRISIS RESPONSE INITIATIVES

The Bank's crisis-response strategy included thematic initiatives to reinforce institutional priorities of protecting the vulnerable, preserving infrastructure, and rapidly responding to country needs. The initiatives include the Global Food Crisis Response Program (GFRP) and the Rapid Social Response Program (RSR), which function under the Bank's Vulnerability Financing Facility, and the Infrastructure Recovery and Assets Platform (INFRA).

Vulnerability Financing Facility[a]

The Global Food Crisis Response Program (GFRP) was launched in May 2008, in cooperation with United Nations and other agencies, to help countries deal with the global food crisis in the short term and to achieve sustainable food security over the longer term. It developed the fast-track approach that was subsequently adopted by the IDA Fast-Track Facility and included three externally financed trust funds, as well as a single donor trust fund from the IBRD surplus, in addition to regular IDA and IBRD financing.

Through the end of fiscal 2010, the GFRP covered 55 operations, committing $1,238 million and disbursing $920 million, for an overall disbursement rate of 74 percent. The relatively high disbursement rate reflects the greater proportion of DPOs, emergency operations, and quick-disbursing trust funds in the GFRP than in IDA and IBRD operations more generally. For example, in agriculture and rural development, the GFRP covered 24 operations in IDA borrowers, with commitments of $631 million in fiscal 2008–10 and disbursements of $407 million, for a disbursement rate of 65 percent, compared with 27 percent for IDA operations more broadly. If the $250 million Ethiopia emergency food crisis credit, which is fully disbursed, is excluded from commitments and disbursements, the GFPR disbursement rate for agriculture and rural development declines to 41 percent, and if the trust fund components are also excluded, the rate declines further—to 31 percent. The GFRP also provided for diagnostic studies and involved periodic monitoring and reporting on the situation in affected countries.

The Rapid Social Response Program, launched in April 2009, focused on social safety nets, labor markets, and access to basic social services, especially in low-income countries.[b] It combined donor trust fund support for diagnostics and country capacity building with support for rapid social response themes through IBRD and IDA loans, credits, and grants. The latest RSR progress report sets out $4 billion in Bank commitments in fiscal 2009 and in 2010, compared with less than $1 billion in 2008. While the program may have helped to highlight the importance of social protection in the response, the numbers point strongly to a demand-driven response to middle-income IBRD borrowers such as Colombia, Mexico, and the Philippines. For IDA, the larger spike in social response commitments came in fiscal 2009 (before the launch of the RSR).

Infrastructure Recovery and Assets Program (INFRA) [c]

INFRA grew out of the Bank's Infrastructure Action Plan and, as of April 2009, had become one of the three pillars of the Bank Group response. It covers diagnostics, partnerships, and lending in four subsectors—energy, global communications, transport, and water—that are typically supported by investment lending. Including Board approvals of $13.4 billion in the fourth quarter of fiscal 2010, and driven by large IBRD loans in energy and transport, commitments for infrastructure rose by 77 percent during fiscal 2009–10 compared with fiscal 2007–08, mostly in the form of investment lending; disbursements increased by 40 percent.

a. The Vulnerability Financing Facility was to have included a third pillar, the proposed Energy for the Poor Initiative (EFPI). Originally conceived in June 2008, when oil prices were double current levels, as a way of providing protection to most-affected groups, the EFPI had not been activated by the end of the third quarter of fiscal 2010.

b. See World Bank 2009b

c. See www.worldbank.org/infra.

Both the April 2009 and October 2009 Reports to the Development Committee on the Bank's activities and priorities used the same text to describe the Bank's analytic response,[11] and it has seldom been mentioned in key communications. For example, in the March 2009 document (World Bank 2009f) setting out the Bank's crisis-response strategy, almost all references to Bank Group advisory services were to IFC activities; the only exception was a passing reference to Bank analytic work on infrastructure—with nothing on the work of Poverty Reduction and Economic Management (PREM), the Human Development Network (HDN), the Financial and Private Sector Development Department (FPD), or the other Social Development Network (SDN) sectors, such as agriculture and rural development and the environment.[12]

DEC and Network Anchors

The evaluation found different approaches to the analytic response across central units in the Development Economics Department (DEC) and in the network anchors. DEC was positioned to respond to the crisis in important

BOX 3.2 VELOCITY OF DISBURSEMENTS: COMPARISON OF DPOS AND INVESTMENT LENDING

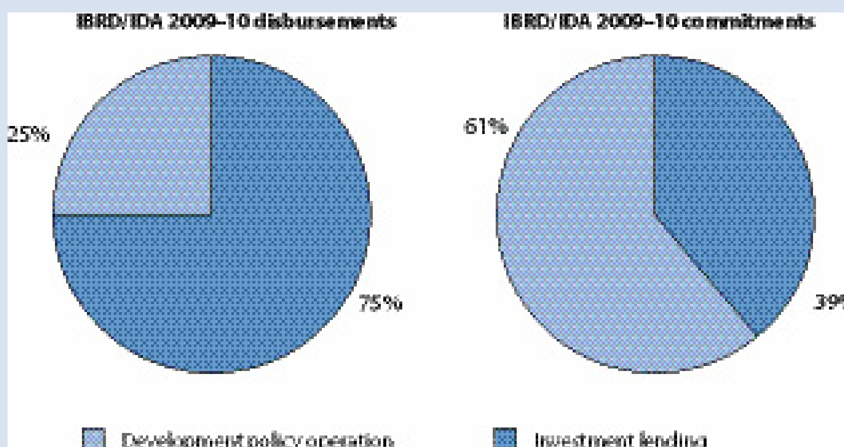
To assess how well the Bank's use of instruments contributed to global stimulus during the evaluation period, the evaluation team examined disbursements of "new" versus "old" loans. The first two columns of the table below show commitments and disbursements during fiscal 2009–10. The third and fourth columns decompose disbursements into two categories—disbursements from old loans and credits, approved before fiscal 2009, and disbursements of new loans and credits, approved during fiscal 2009–10. It shows that of the total $68.1 billion disbursed in fiscal 2009–10, $29.3 billion (43 percent) was from commitments approved in the years before fiscal 2009, and $38.8 billion (57 percent) was from commitments approved during the evaluation period. It also shows that these proportions varied between DPOs and investment lending. For DPOs, 91 percent ($29 billion) were from commitments approved during the evaluation period. For investment operations, 27 percent ($9.8 billion) were approved during the evaluation period; 73 percent of investment lending disbursements was from portfolio loans and credits approved prior to the evaluation and the onset of the crisis.

Disbursements: DPOs and Investment Lending (US$ billions)

	Total commitments fiscal 2009–10	Total disbursements fiscal 2009–10	Disbursements of old, pre-fiscal 2009–10, commitments	Disbursements of new, fiscal 2009–10, commitments
Total	105.6	68.1	29.3	38.8
DPO	41.3	31.7	2.7	29.0
Investment lending	64.3	36.4	26.6	9.8
IBRD total	77.1	47.4	16.3	31.2
IBRD DPO	36.1	26.6	2.2	24.4
IBRD investment lending	41.0	20.9	14.1	6.8
IDA total	28.5	20.6	13.0	7.6
IDA DPO	5.2	5.1	0.5	4.6
IDA investment lending	23.4	15.5	12.5	3.0

The charts below provide another way of looking at the same issue. They show the comparative shares of DPOs and investment lending in disbursements and commitments of operations approved in fiscal 2009–10. Though DPOs account for a large majority of disbursements (75 percent) of loans and credits approved in fiscal 2009–10, they represent a minority (39 percent) of commitments. Indeed, the larger point here is the comparative disbursement rates for new commitments approved during the evaluation period—and that the Bank could have gotten more leverage for its capital by doing more DPOs or other quick-disbursing investment operations. For IBRD DPOs, for example, 68 percent of commitments approved during fiscal 2009–10 disbursed during that same period. For investment lending, the comparable disbursement rate was 17 percent. In other words, to get $100 million of additional disbursements in a 24-month period, the Board would need to approve DPOs (or other quick-disbursing operations) totaling $147 million, compared with slow-disbursing investment loans totaling $588 million, or four times as much.

DPO Shares in Disbursements and Commitments, Operations Approved in Fiscal 2009–10



Source: IEG calculations.

ways, drawing on the Research Department's ongoing work program. Two early DEC responses to the crisis were particularly influential—a report on the lessons from World Bank research on financial crises and another that estimated the implications of the crisis for infant mortality.[13]

Subsequently, DEC produced a number of relevant data and other products as well, several in partnership with network anchors and/or external partners, including monthly country-at-a-glance tables on recent economic and financial indicators that contain timely crisis-relevant data on MICs. Further, since 2009, the Bank's flagship publications—*Global Economic Prospects*, *Global Development Finance*, and *Global Monitoring Report*—have all focused on the crisis, providing important analysis of and information about aspects of the crisis for Bank clients, shareholders, partners, staff, and other stakeholders.

PREM also issued timely crisis-related papers, some in collaboration with DEC and HDN. Noteworthy contributions include reports on the crisis and trade; potential impacts of the economic downturn on poverty, labor markets, and employment (in collaboration with HDN); gender implications of the crisis; protecting core fiscal spending for growth and poverty reduction; design of policies to assist the most affected; vulnerable countries and populations; and, in collaboration with DEC and HDN, impacts on the MDGs. The PREM anchor also provided timely insights and analysis for Regional staff on early crisis impacts and policy responses, in the context of the PREM Financial Crisis Collaboration Web site, which went online in December 2008.

In the other sectors, FPD recognized the need for such approaches later in the crisis, while the SDN was extremely proactive, but there was not always sufficient clarity about the Bank's role. FPD created a special Web page on the crisis and issued several papers covering crisis-related topics in the financial sector. But this effort began relatively late in the lifecycle of the crisis. The first financial sector paper—the brief "Dealing with the Crisis: Taking Stock of the Global Financial Crisis" (Stephanou 2009) was issued only in May/June 2009. (Two earlier FPD Policy Briefs, though of good quality, contained little financial sector specificity—one was a speech on the impact of the crisis on emerging economies and the other was a Working Paper on taxation in Bulgaria.[14] Also, Financial Sector Assessment Programs were 'current'—that is, carried out between fiscal 2006 and the first quarter of fiscal 2009—for only around one-third of client countries.

Meanwhile, SDN invested heavily in the INFRA platform (see box 3.1), focusing on country-based infrastructure diagnostics. However, this work was geared to supporting what some SDN staff saw as "the Bank's role in advocating for continued maintenance of infrastructure assets and the preservation of the pipeline of infrastructure projects throughout the crisis." A broadly similar perspective is reflected in the SDN's December 2009 progress report discussing INFRA's "advocacy for countercyclical spending on infrastructure as an effective tool to provide the foundation for rapid recovery and job creation and to develop a robust economic platform for long term growth" (World Bank 2009e).

Regional and Country Programs

The Bank's analytic work at the country level was an important part of the crisis response. Country programs with solid portfolios of AAA had the necessary foundation in knowledge and the relationships with the authorities to expand lending when the need arose. But equally important, such programs were well-placed to inform high-payoff exchanges with the authorities—often through policy notes and presentations—even when lending was unlikely to be forthcoming. Of course, a crisis is not the time to launch new, in-depth analysis, which risks being completed only after the crisis is over. Crises thus put a premium on having a good portfolio of country- and sector-based analysis and knowledge to draw from quickly in putting together cogent, practical, and timely policy advice and options for the authorities. (See box 3.3 for an analysis of where there may be gaps.)

Links between AAA and Lending

The connections between AAA and lending quality were highlighted in the 11 country case studies prepared for the evaluation. Of particular importance is that AAA was found to be a decisive determinant of the quality of DPOs and of the related policy dialogue on the crisis response. This reinforces a finding of the recent IEG review of country economic and sector work (ESW) (see IEG 2008b). Resources for AAA grew by 15 percent in fiscal 2008, then at an annual rate of 5 percent in fiscal 2009 and 2010. Only one country team (Ukraine) of the 10 interviewed for the evaluation expressed concern about AAA resources, even in the face of lending-related budgetary pressures. In some cases (Indonesia and Vietnam), the country teams pointed to the availability of trust funds for analytic work, and in one case (Mexico) to the availability of fee-based AAA services and to growing budgetary resources related to the increased lending program.

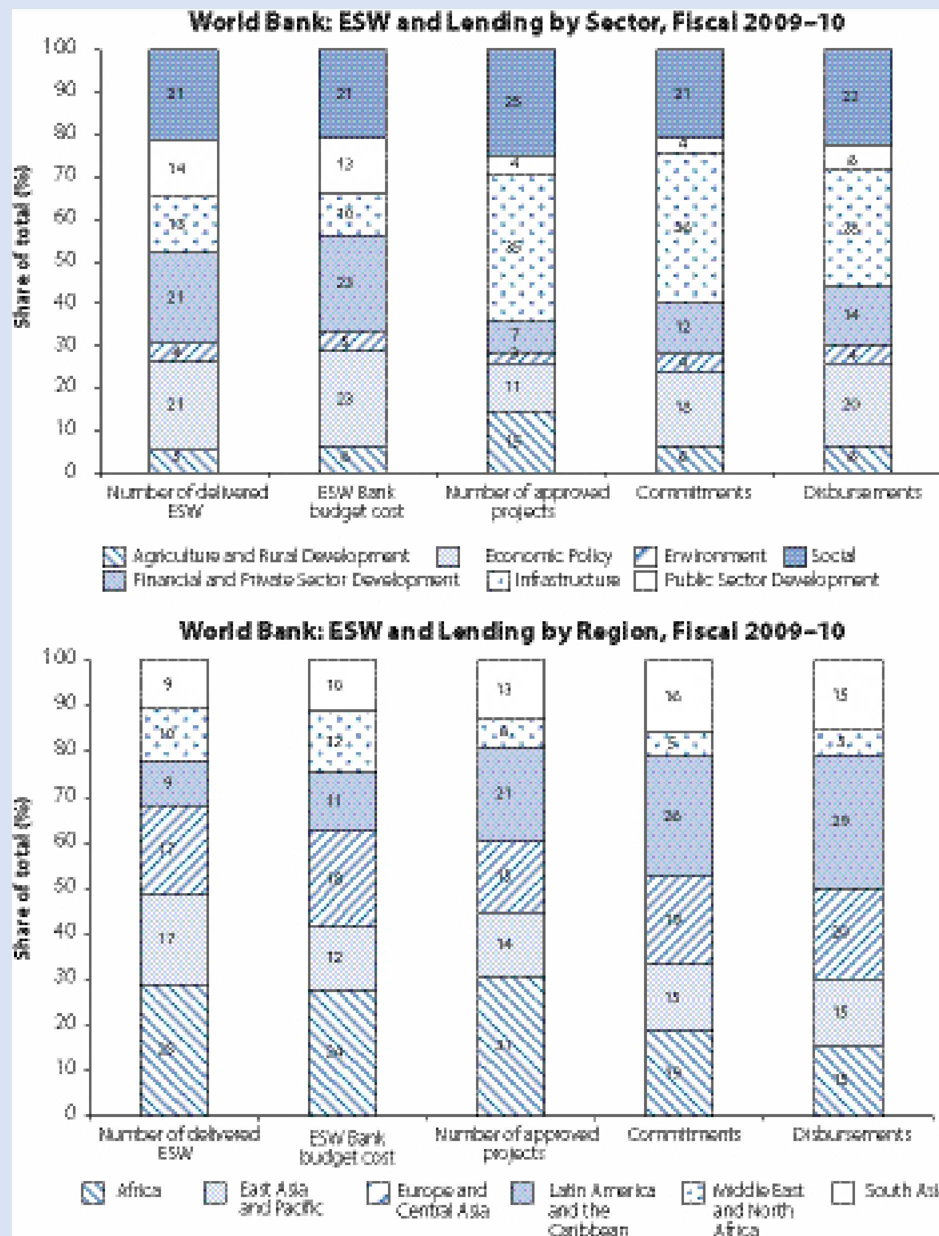
About two-thirds of the case study DPOs reviewed were judged to have built on analytic work. Examples of AAA products especially welcomed by government included a country economic memorandum and a demand-driven aid-for-trade study in Mauritius, which contributed to the government policies and were reflected in the DPO design.

BOX 3.3 PORTFOLIO OF AAA TO INFORM LENDING

Once a crisis strikes, it is too late to invest in basic research to inform the response. This understanding prompts a critical question: how well invested was the Bank at the start of the crisis? Whether the Bank's economic and sector work (ESW) was adequate for a high-quality crisis response is a complicated topic, and one that goes well beyond the scope of the current evaluation. But two simple comparisons are helpful in forming views on this question.

First, looking across Regions, and mindful of important caveats, the figure below presents comparative data on the Bank's ESW in the fiscal 2007–10 period and lending in fiscal 2009–10. Given the jump in lending to Latin America and the Caribbean, it suggests that ESW for this Region has been underfunded compared with fiscal 2009 and 2010 lending. For Sub-Saharan Africa, ESW is more in line with numbers of projects than commitments, given their small size.

Second, the figure shows the results of a similar comparative exercise, but filtered by sector rather than by Region. It suggests that infrastructure (and, to a lesser extent, social development) has been shortchanged on ESW, while the financial sector may have been funded more than other sectors. However, both the infrastructure and social development sectors benefit from large trust funds, which complicate the interpretation of the ESW data and need to be taken into account in the further analysis in the next phase of the evaluation.



The DPO in Jordan similarly built on a solid portfolio of ESW, including an earlier public expenditure review, investment climate assessment, Financial Sector Assessment Program Update, and insolvency and creditor rights Report on the Observance of Standards and Codes. In Mexico, major environmental studies focused on carbon emissions across several sectors of the economy, as well as the policy implications, residential energy prices, and implicit subsidies. The review also found that Europe and Central Asia's extensive Regional work on pensions provided a platform for DPO components in Hungary, Poland, and Ukraine, among others.

Investment lending can also benefit from AAA when relevant sector work is available. Quick-disbursing investment projects in social protection in Colombia and Mexico built on previous Bank work on targeting and conditional cash transfers, in which recipient families had to show a record of school attendance and health visits of their children to qualify for the transfers. The Mexico investment lending program also drew on a large program of fee-based analytic services to underpin quick-disbursing investment loans of $1 billion in the housing sector and $1.5 billion for social protection.[15]

The evaluation found examples where the AAA and related diagnostic work—especially in respect to the Financial Sector Assessment Program (FSAP)—underpinning operations appeared insufficient, including work in countries with financial sector DPOs. These operations went forward without the detailed articulation of measures—and credible results frameworks—that are critical for success. In those cases, the DPO program objectives were vague and aspirational rather than specific and carefully articulated. On the whole, the evidence points to solid AAA and Financial Sector Assessment Program work as the critical factors in positioning the Bank to respond quickly and substantively to countries' emerging needs. Where that foundation was missing, the quality of the Bank's crisis response suffered. Indeed, a clear lesson of the evaluation is that good analytical work is an important prerequisite to rapid and effective crisis response in general, and to well-constructed DPOs in particular.

Policy Notes and Presentations

Experience suggests that freestanding AAA activities can be useful to country authorities and other stakeholders, though the activities may not be captured in standard Bank reporting. Government feedback regarding AAA was positive in several cases. In one case, the authorities singled out technical assistance in the design, execution, and evaluation of financial-crisis simulation exercises funded by the Bank budget and a grant from the FIRST Initiative. In another case, officials appreciated the Bank's just-in-time review of the provisions for special private sector support as part of the government's stimulus package.

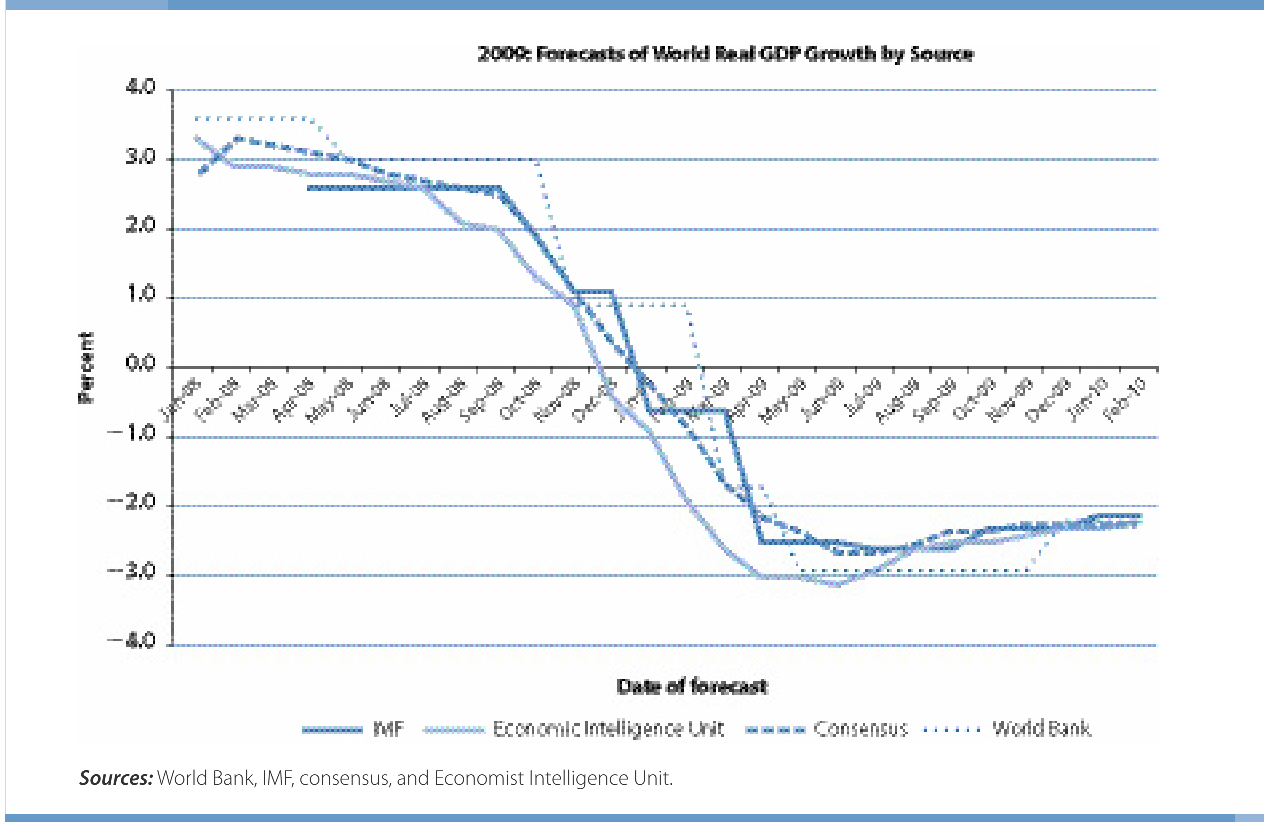
Several Regional chief economists' and sector directors' offices have been proactive on crisis-related topics in the context of presentations or sponsored research. For example, the chief economist's office in Latin America and the Caribbean has made a number of crisis-related presentations to audiences within countries in the Region and elsewhere, with an emphasis on the links between macroeconomic and financial sector issues. The chief economist's office of the Middle East and North Africa Region also made presentations—in this case, focused on possible transmissions to the real economy in the Arab world. The PREM Sector director's office sponsored an important safety net conference in Egypt for countries in the Region. The Europe and Central Asia chief economist's office sponsored important research on the crisis and its implications for households in the Region (World Bank 2010a). More broadly, Europe and Central Asia staff invested heavily in monitoring the impact of the crisis as it unfolded, using a variety of analytic tools and data sources and in assessing the adequacy of social assistance programs as an input to the policy dialogue with the authorities and partners.

Internal Readiness

Had the Bank anticipated the crisis, it would have had more time to prepare for it, but, as in the case of the other IFIs, it did not. This leads to four questions: Was the Bank somehow remiss in not anticipating the crisis? How well did the Bank do on early warning systems—in detecting the early signs of crisis and sounding the alarm internally and externally? How well-prepared was the Bank to handle what the crisis eventually threw at it on the operational side? How prepared was the Bank to handle the challenges on the financial side?

Bank forecasts of the crisis were broadly in line with mainstream views. Figure 3.3 shows the evolution of the Bank's official and publicly disclosed forecast of the growth of global GDP for 2009, the forecasts of the IMF and the Economist Intelligence Unit, and the industry "consensus forecast" for the same time period. The big picture is that none of these forecasters called the severity of the downturn before it started to be felt in the global economy and in the markets in a major way. In September 2008, when Lehman Brothers collapsed, the Bank was still anticipating global growth of 3 percent for 2009, with the IMF predicting only somewhat less, though the Economist Intelligence Unit forecast was already down to 2 percent—with neither the Bank nor the IMF moving into the red zone for 2009 until the year had actually begun.[16]

FIGURE 3.3 The Evolving Forecast for 2009: The Bank and Others



Sources: World Bank, IMF, consensus, and Economist Intelligence Unit.

Early Warnings and Alerts

While the Bank was broadly aligned with comparators' views on the forecast, it could have disseminated the updated forecasts to clients and the broader international community in a more timely manner. Figure 3.3 suggests that the IMF lowered its official forecast for 2009 in October 2008, just before the Annual Meetings, while the Bank's official pre-crisis forecast was unchanged until its November 2008 report (just after the Annual Meetings). Nevertheless, the Bank had lowered an unofficial forecast before the Annual Meetings, and when the official forecast was revised, it lowered the 2009 global growth forecast more than the IMF did—from 3 percent to 0.9 percent, compared with the IMF's successive cuts from 2.6 percent in April, to 1.9 percent in October, and 1.1 percent in November.

The Bank and the IMF said many similar things at the 2008 Annual Meetings, but with major differences in the emphasis they placed on the crisis and the messages conveyed. The Annual Meetings statements of both the Bank and the IMF on October 13, 2008 (see Kahn 2008; Zoellick 2008) acknowledged the recent financial shocks and the risks they carried, on top of the earlier food and fuel shocks, which were then subsiding. The Bank's statement focused on its main theme of multilateralism and markets; the IMF's main theme was the crisis itself and the urgency of acting quickly and comprehensively. Also, though less notable, differences characterized the two institutions' reports to the Development Committee (See Development Committee 2008a, b).

There were many reasons for the IMF to have reacted quickly to this particular crisis. Not least of these reasons was the origin of the crisis in the financial sectors of the advanced economies, where the Fund has an important mandate and role in bilateral surveillance through the Article IV Consultation process and multilateral surveillance, as reflected *inter alia* in its work on the *World Economic Outlook* and the *Global Financial Stability Report*. The Fund's independent evaluation office is looking into the effectiveness of the institution in anticipating the crisis (IEO 2010).

Several internal Bank issues also may have contributed to the differences in institutional approaches and initial delays in response. For the Bank's part, while the crisis began in Organisation for Economic Co-operation and Development countries, global interdependence necessitated a high state of readiness. Interviews with Bank staff, clients, and partners pointed to factors that individual senior manag-

ers were grappling with at the time, as well as organizational fragmentation across network leadership, DEC, and in respect to the financial sector, which some saw as diminishing the Bank's ability to connect the dots between macroeconomic and financial sector developments. Country offices also reported that they often relied on IMF forecasts, rather than any generated by the Bank, indicating a lack of connectivity between country and global forecasting.

Operational Organization and Capital Adequacy

During the early phase of the crisis response, the Bank capitalized on the relationships of country teams with clients and partners. The Bank's larger readiness challenge was internal: the instruments and modalities by which country teams would be able to respond to country requests for increased financing, especially DPOs from IBRD borrowers. The Bank benefited from having in place a core set of flexible instruments—both for investment and development policy lending—though there remain important pending issues, such as maturities, which in some cases may be too long for what are essentially liquidity operations, as discussed in chapter 4.

On the modalities, the priority was to put in place a mechanism for rapid review—which the Bank did soon after the 2008 Annual Meetings, through a Crisis-Response Working Group—taking into account Board-approved operational policies and IBRD country creditworthiness requirements and financial availabilities. During this process, the Bank built on longstanding institutional arrangements, such as the Operations Committee, for management review of major lending increases, and on the country directors' group, which remains an important vehicle for cross-fertilization and communications among country directors and between country directors and Operations Policy and Country Services (OPCS) and other central units.[17]

The Bank would not have been able to respond as it did if it had not been so well positioned financially when the crisis started. The IBRD went into the crisis with an equity-to-loans ratio of 38 percent, compared with a target range of 23 – 27 percent, which gave it substantial room to expand lending. The IDA15 operational period, which had just become effective on July 1, 2008, had increased available resources for commitments by about 25 percent. Of course, neither of these developments reflected specific plans for dealing with the global crisis. IBRD's crisis response benefited from the very low pre-crisis demand for IBRD financing from MICs, especially those with investment-grade financial markets, such as Mexico, which had prepaid the Bank for earlier loans as part of its own external liability management programs, opening headroom for borrowing in the event of a crisis.

Once international financial markets seized up, demand for IBRD financing surged, even from investment-grade borrowers. The focus quickly shifted from what to do with the "excess" IBRD capital to how to ration it among borrowing member-countries and how to increase IBRD capital to support higher lending levels. The timeline in box 3.4 shows the progression of Development Committee thinking, starting with an April 2008 focus on ways of "deploying capital more effectively" and leading to endorsement of a capital increase two years later.

Internally, the OPCS-led Crisis-Response Working Group played a critical role in managing the Bank's IBRD response. Within the Working Group, the Bank's Country Credit Risk Department— building on a framework developed earlier for determining lending envelopes incorporated in country assistance strategies—had responsibility for ensuring (i) that the IBRD single-borrower limit was not breached; (ii) that when exposure to non-investment-grade countries rose, it was accompanied by policies that boosted country creditworthiness; and (iii) that the level of risk-adjusted capital required to support the lending (determined on the basis of the Country Credit Risk Department 's creditworthiness analysis) was taken into account, available, and fairly distributed relative to other requests.

The IDA situation was very different from that of the IBRD. The food and fuel crises had more adversely affected IDA borrowers than others, and as that crisis waned and the global economic crisis deepened, the situation of some IDA borrowers actually improved, at least temporarily. In addition, the IDA allocation process is very different from that of the IBRD, with almost all resources allocated across countries on the basis of the IDA performance-based allocation system. In the circumstances, IDA resources were largely spoken for at the start of the crisis. Increases could only come from front-loading the lending or through mobilization of additional donor resources through special trust funds in the context of the IDA Fast-Track Facility and the Vulnerability Financing Facility. Though the former was generally well received, the latter bred controversy and confusion at the outset, undermining the Bank's leadership, both internally and externally.

An external debate concerned the Bank proposal at the G-20 Meetings in March 2009 that advanced countries should contribute 0.7 percent of their stimulus packages to a Vulnerability Fund for development. This idea was received positively by many developing countries, because the Bank was speaking for them, but not by many advanced economies and IDA deputies, some of whose governments were not in a position domestically to contribute. They also saw the proposal as conflicting with the IDA replen-

BOX 3.4 IBRD CAPITAL ADEQUACY: EVOLUTION OF DEVELOPMENT COMMITTEE VIEWS

April 13, 2008	"We … look forward to the results of the strategic review of IBRD capital and progress on deploying capital more effectively for development impact."
October 12, 2008	"IBRD has the financial capacity to comfortably double its annual lending to developing countries to meet additional demand from clients. IBRD lending was US$13.5 billion last fiscal year."
April 26, 2009	"We confirmed our support for making optimal use of IBRD's balance sheet with lending of up to $100 billion over three years. Given the possibility of a slow recovery, we considered the potential need to deploy additional resources and asked the Bank Group to review the financial capacity, including the capital adequacy, of IBRD and IFC, and the adequacy of the concessional resources going to IDA countries, for our further consideration at the 2009 Annual Meetings."
October 5, 2009	"We welcomed the progress in examining measures to improve the Bank Group's financial capacity and sustainability. We committed to ensure that the Bank Group has sufficient resources to meet future development challenges, and asked for an updated review, including on the Bank Group's general capital increase needs, to be completed by Spring 2010 for decision."
April 25, 2010	"The Bank Group must remain financially strong. We endorsed a general capital increase for IBRD of $58.4 billion of which 6percent, or $3.5 billion, would be paid in capital, as set out in the paper Review of IBRD and IFC Financial Capacities. We further endorsed related matters contained in that paper as well as in Synthesis Paper-New World, New World Bank Group, including a reform of loan maturity terms to be discussed at the integrated financial review in June 2010."

Sources: Development Committee Communiqués, dates as above.

ishment program. Instead, they were looking for the Bank to pursue targeted safety net programs that might be used in conjunction with DPOs. In due course, the proposed Vulnerability Fund was overtaken by the Vulnerability Financing Framework, which came to include the existing Global Food Response Program and a new Rapid Social Response Program, as discussed earlier in this chapter in the context of box 3.1. Alongside these developments, some IDA deputies also were pushing for an IDA crisis-response window, which was ultimately agreed and funded

TABLE 3.4 World Bank Operational Productivity for New Lending

Fiscal year	Lending (US$ billions)	Projects (number)	Average project size (US$ millions)	Country services budget (US$ millions)	Productivity (projects per US$1 million in budget)	Productivity (US$ lent per US$1 million in budget)
2001	17.8	254	70.3	402	.63	4.42
2002	19.6	244	80.5	493	.49	3.98
2003	18.6	260	71.5	526	.49	3.54
2004	20.2	258	78.2	589	.44	3.43
2005	22.3	298	74.9	590	.51	3.78
2006	23.6	298	79.3	619	.48	3.81
2007	24.7	320	77.3	616	.52	4.01
2008	24.7	319	77.4	658	.48	3.75
2009	46.9	329	142.6	685	.48	6.85
2010	58.7	385	152.6	725	.53	8.10

Source: World Bank data.

as a pilot for IDA15—after management found additional funds that could be allocated for crisis support outside the performance-based system—to be considered for possible mainstreaming in IDA16 (see World Bank 2010e).

Operational Budgets and Productivity

The Bank budget for country services rose at an annual (nominal) rate of 5 percent in fiscal 2009–10 (appendix table A13). This is small relative to the increase in lending, and raises questions about its adequacy for sustaining quality. Preliminary analysis suggests that when productivity is measured on a per-dollar-lent basis—by the elasticity of lending volumes with respect to the Bank budget for country services—it rose sharply in fiscal 2009 and 2010 (by about 50 percent per year). However, when measured on a per-project basis, productivity in fiscal 2009–10 was more in line with historical averages. By both measures, the productivity increase was concentrated in lending preparation, compared with supervision and AAA, although the shares of supervision and AAA in country services budgets have increased relative to lending preparation. The increase in the supervision budget share may be related to the surge in use of loan supplements (additional finance), which started in fiscal 2007 and continued throughout fiscal 2009–10, primarily for investment loans.[18] The increase in the share of AAA may be related to the surge in DPOs. But in both cases, more analysis (and data) is needed for a fuller assessment.

The difference between the two productivity measures reflects a doubling of the average project size between fiscal 2007–08 and 2009–10. This included the doubling of IBRD loan size and a 31 percent increase in IDA credit size. For the IBRD, the increased loan size was in both DPOs and investment lending, as discussed earlier. However, the increase in IBRD investment loans in fiscal 2009 offset a decline in fiscal 2008; hence, the main increase was for DPOs. The analysis of changes from the lending plans in country partnership strategies highlights additional large loans in Indonesia, Mexico, and Ukraine. Case studies pointed to budget trade-off problems in Ukraine, but not in Indonesia or Mexico. For IDA, the increase in numbers of operations came in fiscal 2007–08. The number of IDA operations declined in fiscal 2009 by 11 percent compared with fiscal 2008, before partially recovering in fiscal 2010.

External Coordination

Country Counterparts

The main evaluation evidence on the effectiveness of the Bank's coordination with country counterparts comes from interviews with authorities in the 11 case study countries. It also includes feedback from LICs on the Bank's crisis response performance that was collected during the G-20 preparations in August 2009.[19]

The case study evidence presents a positive picture of the Bank's coordination with country counterparts, although there are exceptions. Authorities interviewed praised Bank staff for their specific expertise—especially in drawing on analytic work—genuine commitment to country ownership, and eagerness to help. In one noteworthy case, the authorities said that in the fiscal 1998–99 crisis, the Bank had been part of the problem, but in this crisis the Bank was part of the solution. However, there were complaints, especially related to timeliness and indecision, with the authorities of one country noting that the Bank loan had been approved only after the country no longer needed the funding.

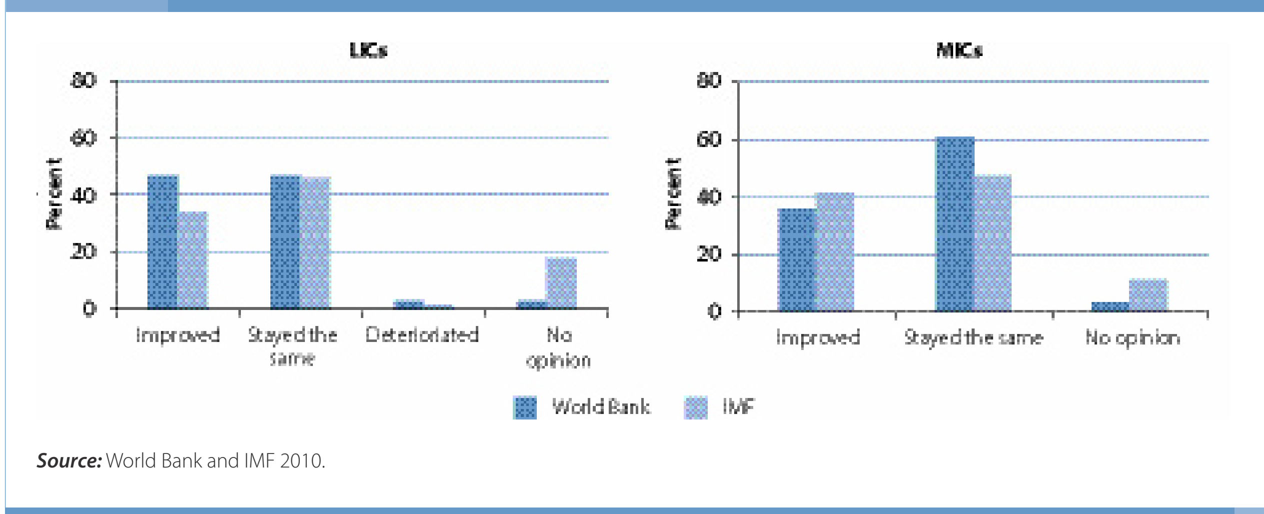
The consultations with LICs carried out in August 2009 in preparation for the G-20 meeting provide evidence of countries' appreciation of the Bank's response, but also of complaints about the speed of that response. Some participants complained about procedural delays, lack of flexibility in diverging from the Country Assistance Strategy, and the need for an IDA crisis window. For many participants, the effectiveness of the Bank's response compared unfavorably with that of the IMF and the regional development banks. Echoing a theme developed earlier in this chapter, the consultation report to the G-20 states: "It was suggested that although the World Bank responds quickly to crises, actual disbursement of financial support is often very slow."[20]

IMF

Bank-Fund collaboration, which had been a major problem during the East Asian crisis, appears to have been better this time. Indeed, the staff survey carried out for the recent Joint Management Action Plan on Bank-Fund Collaboration review found that 35–40 percent of Bank and Fund staff thought that the crisis had improved collaborations, with the remainder reporting no change or no opinion (World Bank and IMF 2010) (figure 3.4). The improvement appears to have reflected several factors. First, the Fund had moved quite substantially away from setting structural conditionality, removing an important area of tension between the staff of the two institutions. Second, the biggest staff disagreements during the East Asian crisis had been around programs in the Region; this time there were few such programs. Only Indonesia and Vietnam have IBRD DPOs, and neither of them have an IMF program (IMF programs concentrated on Eastern Europe, Central Asia, and Latin America—the last through flexible credit lines).

Third, fiscal space, which has usually been the source of much friction between Bank and Fund teams, has been less of a factor this time. This is due to the global consensus on the need for countercyclical policies and stimulus rather

FIGURE 3.4 Impact of Crises on Bank-Fund Collaboration in LICs and MICs



Source: World Bank and IMF 2010.

than belt-tightening, as well as the better fiscal and debt positions of many countries at the outset of the crisis. Finally, the division of labor between the two institutions on the Financial Sector Assessment Program, which had sometimes engendered acrimonious debate within the Bank-Fund Financial Sector Liaison Committee, was resolved by the two Boards in 2009, reaffirming the existing arrangements. Critical country-level work had continued relatively unimpeded

BOX 3.5 WHAT LOW-INCOME COUNTRIES SAY ABOUT THE BANK'S CRISIS PERFORMANCE

Countries indicated that there is a need for the Bank to rationalize facilities, sectors, and projects within Country Assistance Strategies, to ensure greater coherence and prioritization, as well as higher contingencies within each Country Assistance Strategy and overall IDA envelopes to allow reallocation to confront crises or shocks.

It was suggested that the World Bank had been less responsive in the wake of the crisis, and their actions less visible, than the IMF and other regional institutions, especially in Africa, although the reverse may have been the case in Central America.

It was suggested that the World Bank, and IDA in particular, should have a crisis window, so that IDA could respond adequately and quickly in times of crises. Moreover, it was suggested that there should be greater clarification on the range of instruments available as well as the process of accessing them, because countries felt that that there had been poor information dissemination and discussion of the new mechanisms established to respond to the financial crisis.

Some countries felt the Bank's response to the crisis had been rapid and significant. However, many did not, because of delays in procedures, excessive conditions, and lack of transparency/predictability in decisions on which countries could access budget support. Countries also suggested allocating higher levels of World Bank funds to anti-shock budget support, making the recent increase permanent to help countries respond to all shocks, rather than just the current global crisis.

Overall, countries … urged an earlier and larger IDA replenishment but also agreement on a more permanent mechanism to fund fast-tracking/front-loading of resources in crises (both globally and for individual countries) without advancing replenishments, perhaps using IBRD resources. They also need to be able to access more IBRD funds, blended with IDA, for high-return public sector projects.

Very slow approval and disbursement processes and excessive numbers of missions are undermining the Bank's usefulness against the crisis. In terms of transaction costs and delay, the Bank is 'not very good at doing business.'

Countries reported mixed experiences relating to the timeliness of the World Bank's response to crises. Some countries had received financial support very rapidly, while others noted that World Bank support had been sluggish. It was suggested that although the World Bank responds quickly to crises, actual disbursement of financial support is often very slow.

Source: G-20 Chair Consultations of LICs on Flexibility and Adaptability of IFIs in Freetown (8/14/09) and London (8/17/09). http://www.development-finance.org/en/news/205-g20-consults-lics.html

throughout the period of debate, but with some remaining tensions (World Bank and IMF 2009).

Other Partners

The evidence also points to better coordination with other partners—especially at the country level. This included the regional development banks, bilateral and multilateral donors, UN agencies, and private charitable organizations. Though there is evidence of some tension in these relationships, they are far more productive than in earlier crises and reflect considerable progress.

IFC Response

IFC's strategic intention was to provide a timely and effective response, but this response was developed amid concerns about how the crisis might adversely affect IFC's financial capacity. In the pre-crisis years of fiscal 2005–08, IFC had recorded strong profits (average of $1.8 billion per year), which had enabled it to approximately double its investments and to commit to a transfer of $1.75 billion to IDA between fiscal years 2008 and 2010. The crisis changed IFC's income outlook, with the expectation of significant equity write-downs and a rising number of nonperforming loans—as had happened in past crises. IFC accordingly prioritized efforts to protect its existing portfolio and minimize losses.

Though its balance sheet was impaired by the crisis, IFC remained relatively well capitalized—well above Board targets. Allowing for a three-year crisis, IFC expected to support a modest countercyclical response through its own account and through new global partnerships. IFC experienced substantial equity write-downs on its portfolio, some $1 billion, but stayed well capitalized relative to Board requirements. IFC's capital adequacy ratio—retained earnings and general reserves compared with risk-weighted assets—fell from 48 percent to 44 percent between June 2008 and June 2009, but stayed well above the Board requirement of 30 percent (and also above similar ratios for highly rated commercial banks).[21]

Photo courtesy of Guiseppe Franchini/World Bank.

External assessments endorsed this view. In February 2009, for example, Standard and Poor's reported that IFC had ample capital and liquidity, given the riskiness of its investment portfolio and taking into account that, unlike other multilaterals, IFC did not have callable capital to draw on (Standard and Poor's 2009).

IFC conservatively projected a modest 5 percent increase in new business between fiscal 2009 and 2011, with mobilization of significant additional financing through new global initiatives. Recognizing that a prolonged recession could absorb more of the capital cushion, IFC conservatively estimated that it could invest around 5 percent more per year in fiscal 2009–11 than in fiscal 2008 ($12 billion, compared with $11.4 billion). IFC sought to supplement its own funds through new global initiatives, which would raise up to $24 billion between fiscal 2009 and 2011. The following section examines those global initiatives, then the actions taken through IFC's regular business (portfolio management and new business).

New Global Initiatives

To leverage its capital and its role, IFC designed a range of global crisis initiatives focused on mobilizing resources from governments and other development finance institutions (DFIs). As of June 2010, six of IFC's global crisis initiatives were active and three were in development. The active initiatives, involving expected financing of up to $29 billion ($5 billion from IFC) between fiscal 2009 and 2012, are as follows:

- ***Trade*** (Global Trade Liquidity Program, GTLP): In this program of up to $5 billion, IFC and its program partners—including the Department for International Development, the Commonwealth Development Corporation, and the African Development Bank (AfDB)—share risk on the trade portfolios of major international banks or short-term loans to smaller or regional banks without the risk-sharing component. This complements an expansion in the existing Global Trade Finance Program (GTFP), set up in 2005 to provide risk mitigation for counter-party bank risk on trade transactions. Both platforms are run by IFC teams.
- ***Microfinance*** (Microfinance Enhancement Facility): This $500 million facility is expected to provide loan refinancing to more than 100 strong microfinance institutions in up to 40 countries (including 20 IDA countries). The financing, from IFC, the German Development Bank

(KfW), and other development partners (including the European Investment Bank and Austrian, Dutch, German, Swedish, and OPEC DFIs), is intended to support lending by microfinance institutions of up to $84 billion to as many as 60 million low-income borrowers by 2014. The facility is being run by three external fund managers: Blue Orchard Finance, Cyrano Fund Management, and ResponsAbility Social Investments AG.

- ***Bank Capitalization*** (IFC Capitalization Fund): This global equity and subordinated debt fund of up to $3 billion (originally $5 billion) is overseen by a newly created IFC subsidiary, the Asset Management Company,[22] which aims to support banks with systemic impact.[23]
- ***Infrastructure*** (Infrastructure Crisis Facility): This debt facility of up to $8 billion and equity fund of up to $2 billion, both managed by third parties, is intended to support about 100 viable privately funded infrastructure projects facing temporary financing problems. The facility also anticipated an advisory services component to help governments design or redesign public-private partnerships.
- ***Debt and Asset Recovery Program:*** This IFC-run program of $6–8.5 billion includes direct debt, quasi-debt, and equity investments to directly support corporate debt restructuring as well as investments in nonperforming loan pools.
- ***Advisory Services:*** Alongside relevant ongoing activities, IFC is aiming to raise $30 million of new donor funding to help improve the financial infrastructure and enhance risk management through government and firm-level interventions.

The initiatives were structured as a three-phase chronological approach to tackling the crisis. In the first phase, IFC concentrated its efforts on providing access to short-term liquidity, particularly through its trade finance programs (GTFP and GTLP), with the understanding that short-term liquidity would be needed to stave off the decline in real sector production, and thus reduce the likelihood or severity of longer-term liquidity-related impacts.

The second phase of the strategy focused on providing longer-term liquidity and equity capital to select sectors and market segments. This was designed to reduce solvency issues that come about through prolonged limited access to credit. IFC accordingly launched the Infrastructure Crisis Facility (ICF), the Microfinance Enhancement Facility (MEF), and the IFC Capitalization Fund in early 2009.

The third phase of the response strategy is intended to accelerate the recovery. The main focus intended for this third phase is the resolution of troubled assets, debt refinancing, and debt restructuring. With this goal in mind, in August 2009 IFC created the Distressed Asset Recovery Program. Box 3.6 provides some examples of projects supported by the IFC crisis initiatives.

The phased approach notwithstanding, relative to progress indicators that IFC established at the outset for the new initiatives, implementation is well behind schedule. By the end of fiscal 2010, IFC expected to have deployed $6.1 to $8.1 billion through the initiatives. As of June 30, 2010, around $9.2 billion had been mobilized for these initiatives (about half from partners), with $2.8 billion actually committed but only $1.9 billion disbursed (table 3.5). Of the new initiatives, the GTLP is the only one anywhere close to target, with roughly two-thirds of the low-end target for deployment—in this case expected to be achieved by October 2009—committed at the end of June 2010 and around one-half actually disbursed. Figure 3.5 shows the pace of implementation of the initiatives quarter by quarter, indicating that implementation speed is gradually picking up.

Regional Initiatives

At the Regional level, IFC has participated in joint initiatives with other IFIs in Europe and Central Asia, Latin America and the Caribbean, and Sub-Saharan Africa. These initiatives have relied less on new crisis products than envisaged:

- ***Europe and Central Asia:*** IFC is part of a joint IFI Action Plan for Central and Eastern Europe aimed at supporting banking sector stability and lending to the real economy in the region. Under the Action Plan, launched in February 2009, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank Group (EIB), and the World Bank Group pledged to provide up to €24.5 billion and deploy rapid, coordinated assistance according to each institution's geographical and product remit. IFC promised to provide up to €2 billion, intervening mainly through its crisis-response initiatives, to complement its traditional investment and advisory services in the region. As of June 2010, IFC had committed approximately $2.2 billion, mainly through traditional means ($1.4 billion), as opposed to the new initiatives ($780 million). The Action Plan includes efforts to coordinate national support packages and policy dialogue among key stakeholders in the region, in close collaboration with the IMF, the European Commission, and other key European institutions. This effort, the European Bank Coordination Initiative (informally known as Vienna Initiative), is a novel public-private platform for policy dialogue and crisis management coordination.

BOX 3.6 EXAMPLES OF PROJECTS ORIGINATED THROUGH THE IFC CRISIS INITIATIVES

GTFP: Trades supported include shipments of paper from Indonesia to Nigeria, textiles from China to Bangladesh, milled flour from Egypt to Sierra Leone, car tires from Turkey to Azerbaijan, peas from Ukraine to the West Bank and Gaza, wheat from Russia to Pakistan, and motor vehicle parts from Brazil to Bolivia. Median guarantee value is around $150,000.

GTLP: Projects include a $500 million investment to share the risk with Standard Chartered Bank on its trade finance portfolio through the purchase of 40 percent of eligible pools of their short-term trade receivables, so that the bank can scale up its trade finance activities. GTLP has also supported a $100 million, 1-year unsecured loan to Standard Bank of South Africa to support liquidity for trade finance, including but not limited to supporting trade of consumer and intermediate goods as well as smaller machinery and commodities in the region. This line recently supported an award-winning cocoa deal in Nigeria.

Bank Capitalization: Projects include a $61 million equity investment in Komercijalna Banka, Serbia, a bank with 8 percent market share. The bank is seen as systemically important, but it is facing capital constraints due to the crisis. Other IFIs (European Bank for Reconstruction and Development, Swedfund, and the German development bank DEG) have also participated in the recapitalization.

Microfinance: Projects include a $3 million loan to Fondo de Desarrollo Local, a Nicaragua microfinance institution, to maintain its lending in the crisis.

Infrastructure: A port project in Vietnam, originally approved in 2007, became vulnerable when the country was hit with country-specific shocks and the global crisis. IFC helped the project sponsors restructure the $155 million debt-financing package, including a contribution of $10 million from the Infrastructure Crisis Facility. Expected long-term impacts include increased container capacity, relieving congestion in and around Ho Chi Minh City, and cost savings through the ability to handle larger container ships.

Debt and Asset Recovery: The platform has supported a $5 million equity investment to support creation of a debt resolution capacity in Colombia, which would increase the liquidity available to participating financial institutions and contribute to the development of a nonperforming loan market.

Advisory Services: As of June 2010, IFC had organized 47 banking sector workshops and conferences in 28 countries, covering 280 banks, to share knowledge on risk management and nonperforming loan resolution, and has engaged in diagnostics and in-depth advisory work with 27 banks in Europe and Central Asia, the Middle East and North Africa, Latin America and the Caribbean, and Africa.

Source: IEG.

- ***Latin America and the Caribbean:*** The Multilateral Crisis Initiative for Latin America and the Caribbean, launched in April 2009, was organized to pool global financing from public and private sources and to scale up crisis-response initiatives.[24] Partners in this initiative are the IBRD, the Caribbean Development Bank, the Central American Bank for Economic Integration, the Andean Development Corporation (*Corporacion Andina de Fomento*), and the Inter-American Development Bank. Together, the IFIs have pledged to provide up to $90 billion to support the private sector in Latin America and the Caribbean. IFC's expected contribution is $7.8 billion for fiscal 2009 and 2010, covering facilitating trade through the GTFP and GTLP; strengthening the financial sector using the IFC Capitalization Fund; improving infrastructure through the Infrastructure Crisis Facility; and increasing microfinance lending. IFC has fallen short of the $7.8 billion goal. The two-year total for investment lending in Latin America and the Caribbean reached $5.5 billion, with roughly two-thirds of this amount coming from its routine operations ($3.5 billion), and one-third from crisis initiatives such as the GTFP, the Microfinance Enhancement Fund (MEF), and the IFC Capitalization Fund ($2.0 billion).
- ***Sub-Saharan Africa:*** The Joint IFI Action Plan for Africa, launched in May 2009, is designed to leverage additional financing, protect important ongoing programs, and support investment-ready initiatives. Other participants include the AfDB, AFD, EIB, KfW and DEG, Proparco, the Development Bank of Southern Africa (DBSA), the Islamic Development Bank (IsDB), and the Netherlands Development Finance Company (FMO). Under the plan, commitments to the Region are expected to be increased by at least $15 billion through 2012. Of this, IFC is expected to contribute at least $1 billion to facilitate trade, mainly through the GTFP and GTLP; strengthen the

TABLE 3.5	IFC's Crisis Initiatives: Funding and Deployment				
	Funding		Deployment		
Initiative	Target	Actual mobilization	Target (by end fiscal 2010)	Actual commitments (6/30/10)	Actual disbursement (6/30/10)
Global Trade Finance Program (GTFP)	Annual program ceiling raised to $3 billion	N/A (supported by IFC capital base)	N/A (unfunded guarantee program)	$5.8 billion	N/A
Global Trade Liquidity Program (GTLP)	Up to $5 billion	$1.45 billion, partners $1 billion IFC	$3 to 5 billion[a]	$1.9 billion	$1.5 billion
IFC Capitalization Fund	Up to $3 billion (originally $5 billion)	$2 billion JBIC $1 billion IFC	$1.6 billion	$395 million	$208 million
Microfinance Enhancement Fund	$500 million	$292 million, partners $150 million IFC	$0.47 billion	$122 million	$92 million
Infrastructure Crisis Facility	Up to $10 billion ($8 billion debt and $2 billion equity)	$1 billion, partners $300 million IFC	$0.52 billion[b]	$45 million	$12.3 million
Debt and Asset Recovery Program	$6–8.5 billion	$300 million, partners $1.6 billion IFC	$0.5 billion	$300 million	$69 million
Advisory Services	$30 million (revised down from $60 million)	$16.1 million, partners	$20 million	$10.7 million	$2.7 million
Total new partnerships[c]	$24.5 to 27 billion	$9.2 billion	$6.1 to 8.1 billion	$2.8 billion	$1.9 billion
Percent of target		35		46	31

Source: IFC.

Note: Amounts as of June 30, 2010. Table does not include parallel financing for GTLP ($1.5 billion, from Japan Bank for International Cooperation) and the Infrastructure Crisis Facility ($3.5 billion).

a. In March 2009, the IFC anticipated full deployment of $3–5 billion by October 2009.

b. In December 2008, IFC described a "satisfactory" result as 40 percent of committed capital invested within one year—$0.52 billion is 40 percent of $1.3 billion.

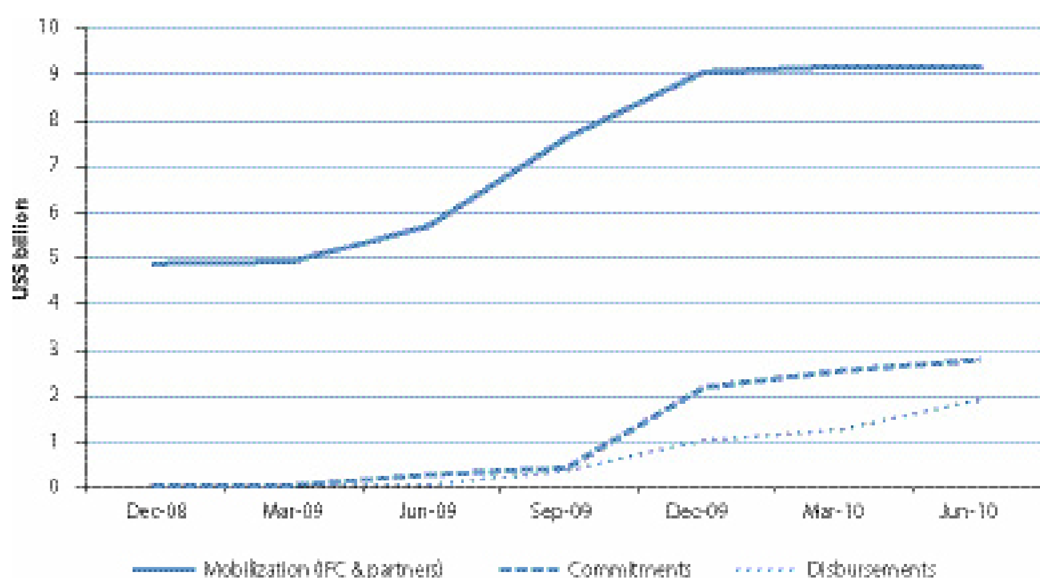
c. Excludes GTFP, as (i) an existing program that was extended, and (ii) given its unfunded guarantee nature.

capital base of banks using the IFC Capitalization Fund; improve infrastructure, including through the Infrastructure Crisis Facility; increase microfinance and small and medium enterprise (SME) lending; and promote agribusiness. To date, implementation under the trade finance initiatives has been solid, with several major global and regional banks signing up with the GTLP, including Standard Bank of South Africa and Afreximbank, and increasing GTFP volumes. A specific Africa capitalization fund with funding from the AfDB, the EIB, and the OPEC Fund for International Development, alongside IFC, has also been launched. Under the microfinance pillar, MEF is expected to disburse about 10 percent of its funding to projects in Africa (no commitments to date) and the Regional Micro, Small, and Medium Enterprises Investment Fund for Africa, which is solely focused on Sub-Saharan Africa, is pending commitment by IFC.[25]

Core Business Response

Prior to the crisis, IFC set out a two-sided core business approach to a possible downturn: countercyclical investments, particularly in MICs, and prudent management of the portfolio. The corporate strategy of early 2008 envisaged proactive countercyclical support for companies facing liquidity constraints in order for them to continue to do business during the crisis. The strategy also pointed to the need for prudent portfolio management, focusing on careful supervision of at-risk investments to maintain the health of IFC's balance sheet. As part of the annual strategy exercise,

FIGURE 3.5 Implementation of IFC's Global Crisis Initiatives



Source: IFC.

industry and Regional departments were asked to draw up countercyclical plans, including both more proactive risk taking and hedging strategies, as well as consideration of how advisory services could be deployed in support of investment clients (IFC 2008).

As in past crises, IFC's initial core business response was largely defensive: to minimize losses and protect the financial sustainability of its portfolio. IFC assigned investment staff usually engaged in new business to portfolio work. This was especially true in IFC's relatively large financial sector portfolio, where the ratio of new business to portfolio management staff fell from five to one in 2008 to two to one in 2010. Both the real and infrastructure sectors also saw shifts of staff to portfolio management, though of a lesser magnitude (table 3.6). With this extra support, IFC carried out stress testing of its portfolio of clients in each Region (the financial sector first, then the real sector). Highlighting IFC's determination to ensure the profitability of its portfolio and help clients cope with the crisis, in the early months of the crisis, senior managers visited all IFC's main clients in the field to extend their support

TABLE 3.6 Staff Mix in IFC Investment Operations, 2008–10

Fiscal year	New business	Portfolio management	Ratio
	Full-time equivalent staff members		
2008	367.1	72.5	5.1
2009	407.0	111.9	3.6
2010	543.0	160.5	3.3
	Ratio of full-time equivalent new business: portfolio management staff		
	Real sector	Infrastructure	Financial markets
2008	5.1	5.4	4.5
2009	3.5	4.6	2.8
2010	4.0	4.2	2.3

Source: IFC.

Note: Includes staff involved in IFC Investment Operations (charged to a project) who are grade F2 and above.

and advice. In department scorecards, greater attention than before was given to portfolio management quality, which was made into a focus indicator.

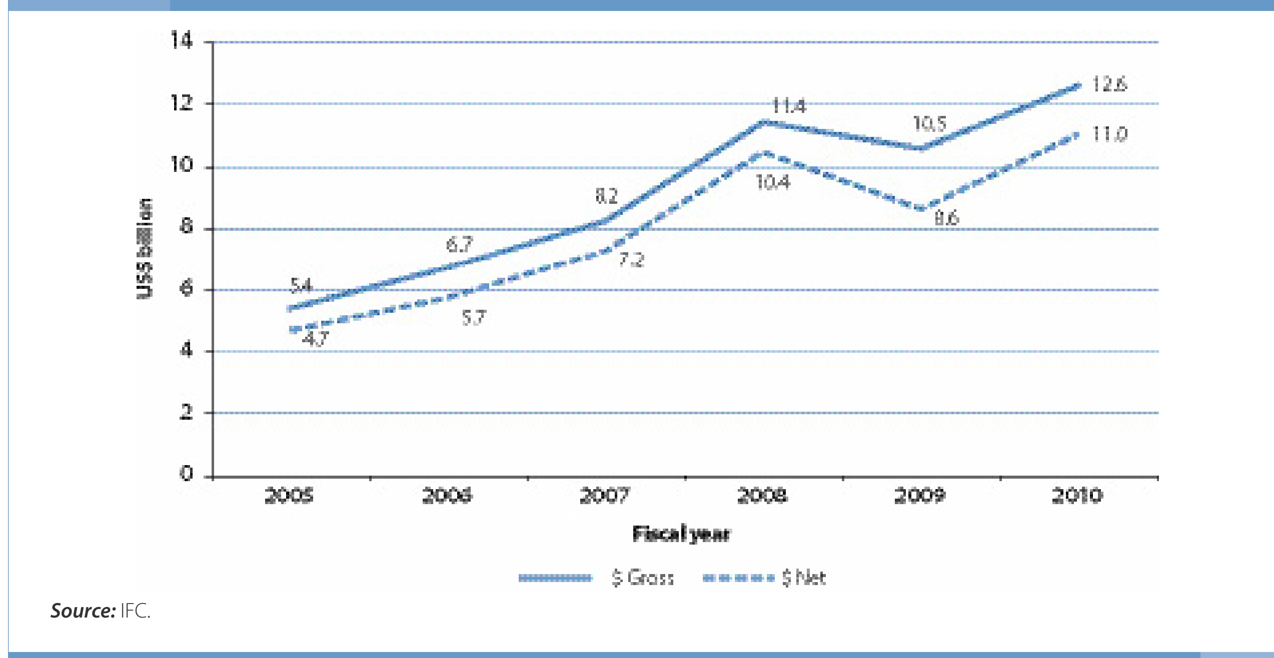
New IFC business activity, which had more than doubled from 2005 to 2008 (figure 3.6), like private capital flows overall, slowed considerably as the crisis took hold. Given the uncertainty associated with the impact of the crisis on IFC's balance sheet, volume targets for new business in fiscal 2009 were suspended.[26] Pricing was also changed to reflect revised country-risk perceptions. 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, as deals in the pipeline were put on hold or dropped. IFC's gross commitments fell to $10.5 billion in fiscal 2009 from $11.4 billion in fiscal 2008, and was some $1.5 billion less than IFC was aiming to achieve ($12 billion).[27] Factoring in canceled projects, sales, and conversions, net commitments were $8.6 billion in fiscal 2009, a fall of 18 percent from the previous year. In fiscal 2010, new business increased by 28 percent, exceeding the level achieved in fiscal 2008.

The pattern was consistent across Regions, with the exception of Sub-Saharan Africa, where new business increased. In most Regions, IFC's new business between fiscal 2008 and 2010 was v-shaped, with an especially deep dip in the Region hardest hit by the crisis, Europe and Central Asia (figure 3.7). Sub-Saharan Africa was the notable exception; the pre-crisis upward trajectory of new business was maintained in fiscal 2009 and 2010.

IFC's IDA focus was maintained during fiscal 2009–10, with investment volume in IDA countries increasing 24 percent between fiscal 2008 and 2010, from $3.2 to $4 billion. During fiscal 2009, nearly a half of new commitments (by number of projects) were in IDA countries (IDA and IDA blend). Conversely, IFC's investment volume in larger non-IDA countries fell in fiscal 2009, with volumes only picking up in the last quarter of fiscal 2010, and thereby helping the annual figure for fiscal 2010 to edge above the level achieved in fiscal 2008 (figure 3.8). Table 3.7 shows the main individual country shifts within the IDA/IDA blend and non-IDA country groupings in the first 15 months of the crisis, between September 2008 and December 2009. Box 3.7 offers several examples of IFC's activities in each of the countries during the crisis period.

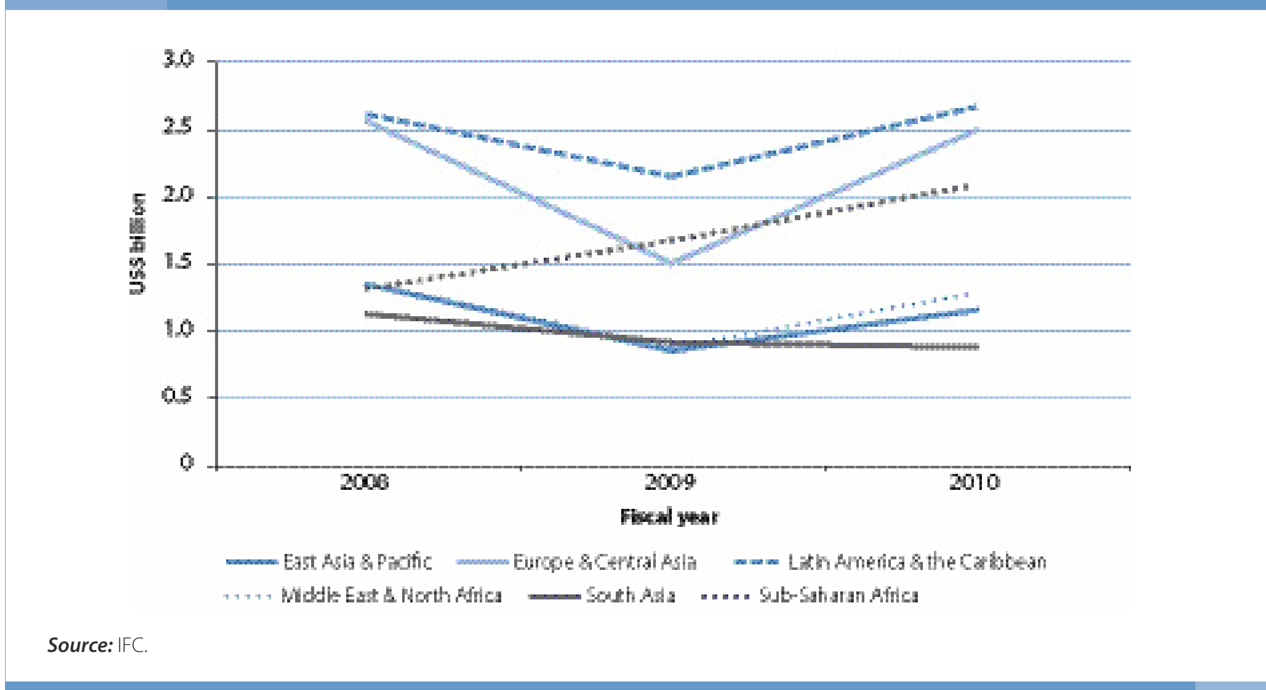
The crisis accelerated a trend in IFC toward short-term financing, which had been valuable but relatively limited in past crises (IEG 2008a). Where new business was pursued, it increasingly involved short-term trade finance guarantees through the GTFP, which use up less capital when committed (about half of that required for a loan), and thus put less pressure on the balance sheet.[28] The volume of GTFP transactions more than doubled between fiscal 2008 and 2010, while the volume of loans fell by around 20 percent. Equity commitments were relatively stable, and these patterns continued into fiscal 2010. The dramatic shift in instrument mix over the crisis period is shown in figure 3.9. GTFP commitments rose from 14 percent of IFC's new commitments in fiscal 2008 to 31 percent in 2010.

FIGURE 3.6 IFC Investment Commitments, Fiscal Years 2005–10



Source: IFC.

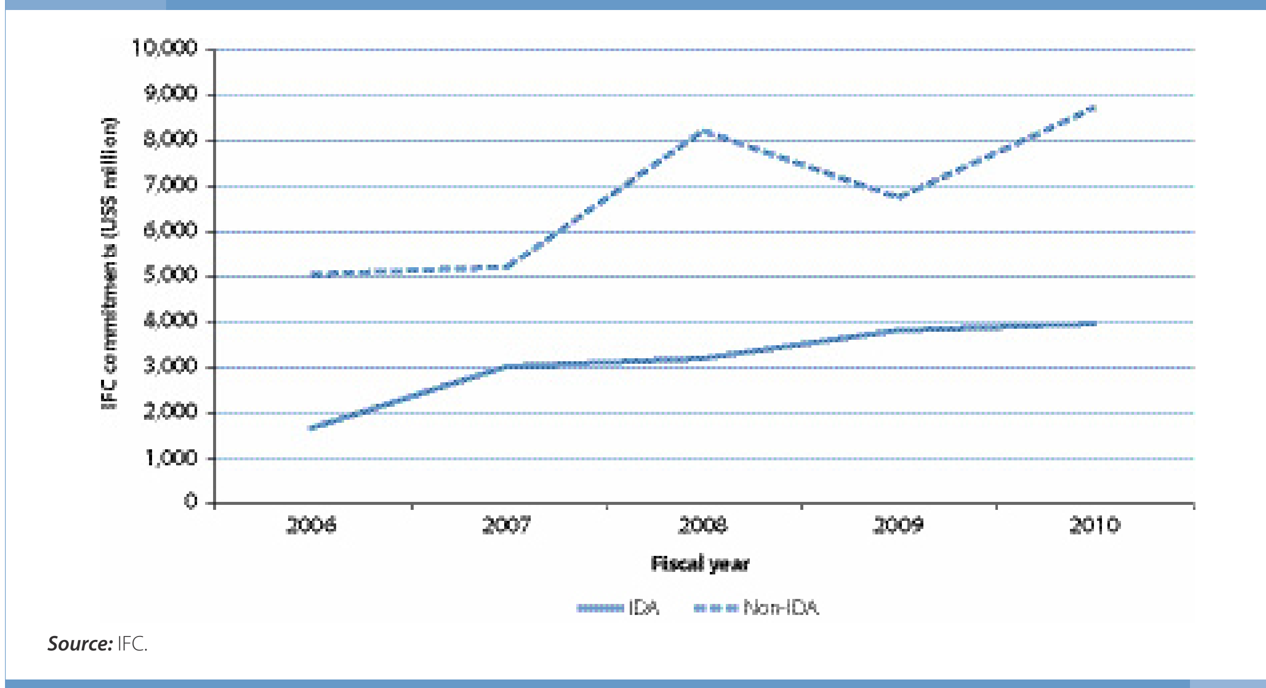
FIGURE 3.7 Net IFC Commitments by Region, Fiscal Years 2008–10



Source: IFC.

By sector, in keeping with the increase in trade finance, there has been a significant shift in the balance of resource allocation toward financial sector investments. There has been a substantial decline in infrastructure and real sector investments, both in absolute and relative terms (figure 3.10). Within these clusters, physical infrastructure (particularly electric power) and food and agribusiness (agriculture and forestry in particular) investments declined most during the crisis period (table 3.8).

FIGURE 3.8 Net IFC Commitments by IDA Status, Fiscal Years 2006–10



Source: IFC.

TABLE 3.7	Countries with Largest Net Commitment Changes by IDA Status	
Country grouping	Top 5 countries with increases (July 2007 –Sept. 2008 versus Oct. 2008 –Dec. 2009)	Top 5 countries with decreases (July 2007 –Sept. 2008 versus Oct. 2008 –Dec. 2009)
IDA/IDA blend	1. Ghana ($293 million) 2. Pakistan ($263 million) 3. Georgia ($139 million) 4. Vietnam ($82 million) 5. Congo, Dem. Rep. ($55 million)	1. India (–$395 million) 2. Sri Lanka (–$169 million) 3. Nigeria (–$109 million) 4. Kenya (–$90 million) 5. Cambodia (–$74 million)
Non-IDA	1. Panama ($306 million) 2. Kazakhstan ($268 million) 3. Romania ($216 million) 4. Iraq ($106 million) 5. Chile ($99 million)	1. Philippines (–$556 million) 2. Russian Federation (–$492 million) 3. Turkey (–$372 million) 4. Argentina (–$325 million) 5. Peru (–$318 million)

Source: IFC.

A significant difference with past crises is that IFC has a larger knowledge services capacity, supported mainly by donor contributions and IFC-retained earnings that were set aside during the boom years.[29] Over 1,200 staff are involved in the delivery of advisory services, compared with less 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 afforded IFC the opportunity to adapt its operations to help address the crisis needs of clients. Through a special initiative, IFC has begun a line of work geared toward resolution of the nonperforming loans of financial intermediaries, which were expected to rise dramatically as a result of the crisis, and another aimed at establishing insolvency regimes.

Additional crisis support through increased advisory services expenditures has been modest, although many ongoing activities have been relevant to the crisis. Overall, IFC advisory services expenditures increased from $269 million in fiscal 2008 to $291 million in 2009, and were $268 million in fiscal 2010. New approvals fell by around half in fiscal 2009, although this largely reflects the end of the five-year funding cycle in Sub-Saharan Africa. Also, in many cases activities could be funded and delivered from existing projects, rather than requiring new projects to be approved. Special crisis-response initiative expenditures have been relatively small to date, at $13 million, although many ongoing activities were linked to crisis needs, such as corporate governance support to financial institutions in Nigeria and Europe and Central Asia, trade finance advice in Bangladesh, risk management support to microfinance institutions in Morocco, and insolvency and bankruptcy regime work in the Ukraine.

MIGA Response

MIGA's response to the crisis is built around—but not limited to—a new global Financial Sector Initiative that

BOX 3.7 EXAMPLES OF IFC'S CRISIS-PERIOD INTERVENTIONS IN IDA AND NON-IDA COUNTRIES

IDA/IDA blend:

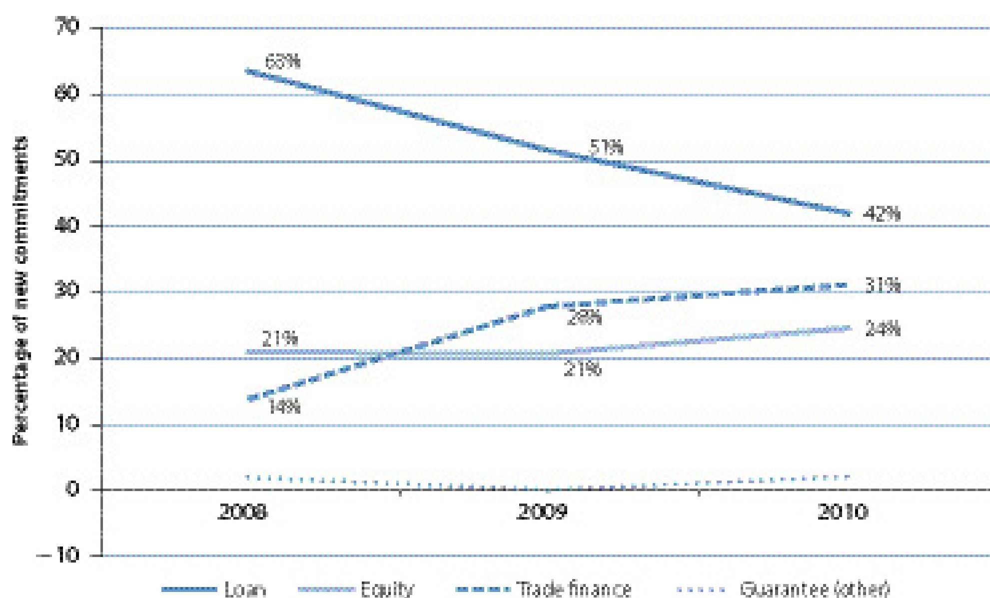
Georgia - $170 million in loans to two systemic banks, TBC and Bank of Georgia (to which IFC also provided interest rate swaps and trade lines)
Ghana – $215 million in loans to help Kosmos Energy and Tullow Oil develop the Jubilee offshore oil and gas field
Pakistan and Vietnam – Significant increases in support for trade finance through the GTFP.

Non-IDA:

Indonesia, Philippines, and Turkey – A highly selective approach to new investments, which resulted in a sharp slowdown in new business
Kazakhstan – A doubling in investments and a continuation of advisory support to the financial sector.

Source: IFC.

FIGURE 3.9 IFC Instrument Mix, Fiscal Years 2008 –10



Source: IFC.

focused initially on the Europe and Central Asia Region. Under this initiative, which was discussed with the Board in March 2009, MIGA is providing extended support to financial institutions seeking political risk insurance on cross-border investments for recapitalization or liquidity support to their subsidiaries. Under this initiative, MIGA announced it would provide up to €2 billion in political risk insurance (gross exposure) to support capital flows into the Europe and

TABLE 3.8 Changes in Net IFC Commitments by Subsector

Department	Sum of June 2007–September 2008 (US$)	Sum of October 2008–December 2009 (US$)	US$ Increase	Percentage increase
Funds	566,315,703	839,586,030	273,270,327	48.3
Finance	5,259,294,028	5,569,060,750	309,766,722	5.9
Health and Education	282,504,917	252,882,056	–29,622,861	–10.5
General Manufacturing and Services	1,355,263,867	1,200,097,693	–155,166,174	–11.4
Oil, Gas, and Mining	839,828,807	589,682,150	–250,146,657	–29.8
Chemicals	313,400,588	218,693,291	–94,707,297	–30.2
Infrastructure	2,967,799,037	1,721,032,162	–1,246,766,875	–42.0
Electric Power	1,653,617,868	589,052,071	–1,064,565,797	–64.4
Information	474,966,904	508,029,315	33,062,411	7.0
Transport	841,661,098	568,265,225	–273,395,873	–32.5
Utilities	–2,446,833	55,685,551	58,132,384	NA
Food and Agribusiness	750,904,067	367,768,730	–383,135,337	–51.0
Agribusiness and Forestry	533,925,249	216,251,708	–317,673,541	–59.5
Food and Beverages	216,978,818	151,517,022	–65,461,796	–30.2
TOTAL	12,335,311,014	10,758,802,862	1,576,508,152	–12.8

Source: IFC.

Note: NA = not applicable.

TABLE 3.9	MIGA Projects and Guarantee Volume, Fiscal Years 2008 –10		
	2008	2009	2010
Gross new guarantees issued ($ billion)	2.1	1.4	1.5
Guarantees outstanding (gross exposure) ($ billion)	6.5	7.3	7.7
Number of new projects supported	23	20	16

Source: MIGA.

TABLE 3.10	MIGA: Volume of Guarantees Issued by Sector, Fiscal Years 2008 –10 (percent)		
Sector	2008	2009	2010
Finance	60	89	65
Agribusiness, Services, Manufacturing	4	3	8
Infrastructure	36	8	27

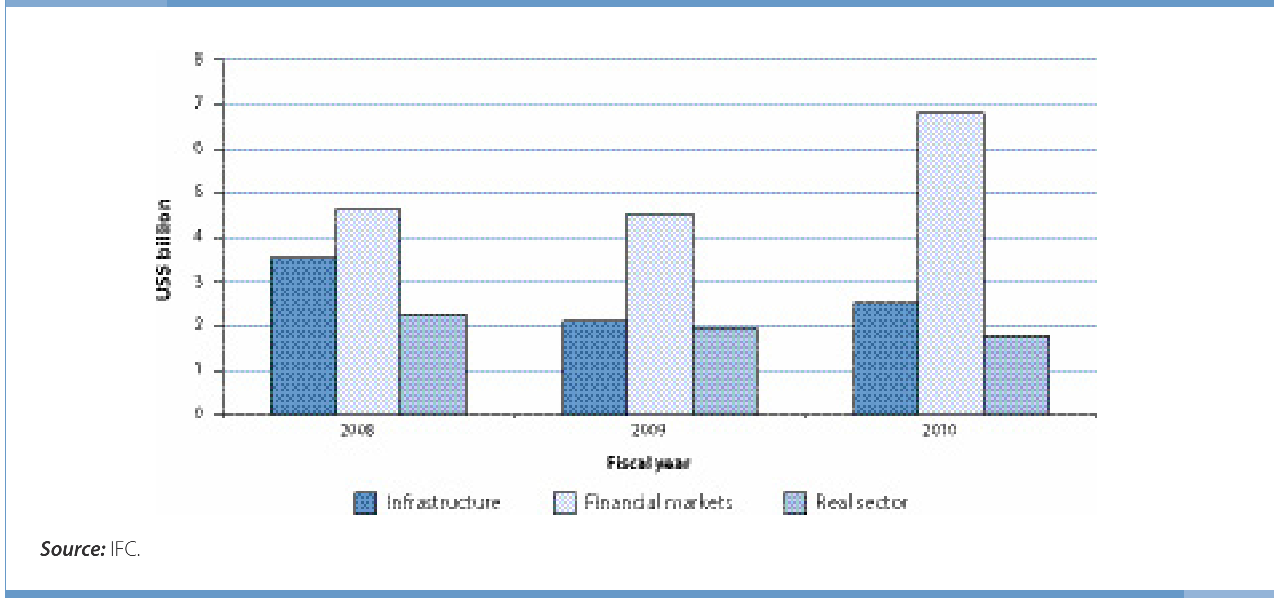
Source: MIGA.
Note: MIGA priority sector Infrastructure includes Oil, Gas, and Mining.

Central Asia Region. Drawing on MIGA's ability to arrange reinsurance, this could commit up to $1 billion of MIGA net exposure in the Region. 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 of the first quarter of fiscal 2011, MIGA had provided 11 guarantees for the recapitalization of 8 different banks by their parent institution, in 5 different countries, bringing MIGA's total cumulative support (gross exposure) under the Financial Sector Initiative to $1.5 billion. MIGA has reinsured about 44 percent of this, bringing its net exposure to about $840 million.

MIGA's guarantee volume has remained broadly unchanged since the crisis began. In line with the weakness in foreign direct investment flows, MIGA's new guarantee activity remained at trend levels during the crisis, with some $1.4 –$1.5 billion in new guarantees in fiscal 2009 and 2010, about the same as the years preceding the crisis, but falling short of MIGA's strategic target of $1.8 billion (table 3.9). At the same time, MIGA's gross outstanding portfolio of guarantees—a measure of the total guarantee coverage MIGA is currently providing for existing clients—rose steadily over the crisis period, reaching a peak level of $7.7 billion in fiscal 2010 (19 percent more than in fiscal 2008, the initial year of the crisis), as more investors held onto their guarantees and cancellations declined.

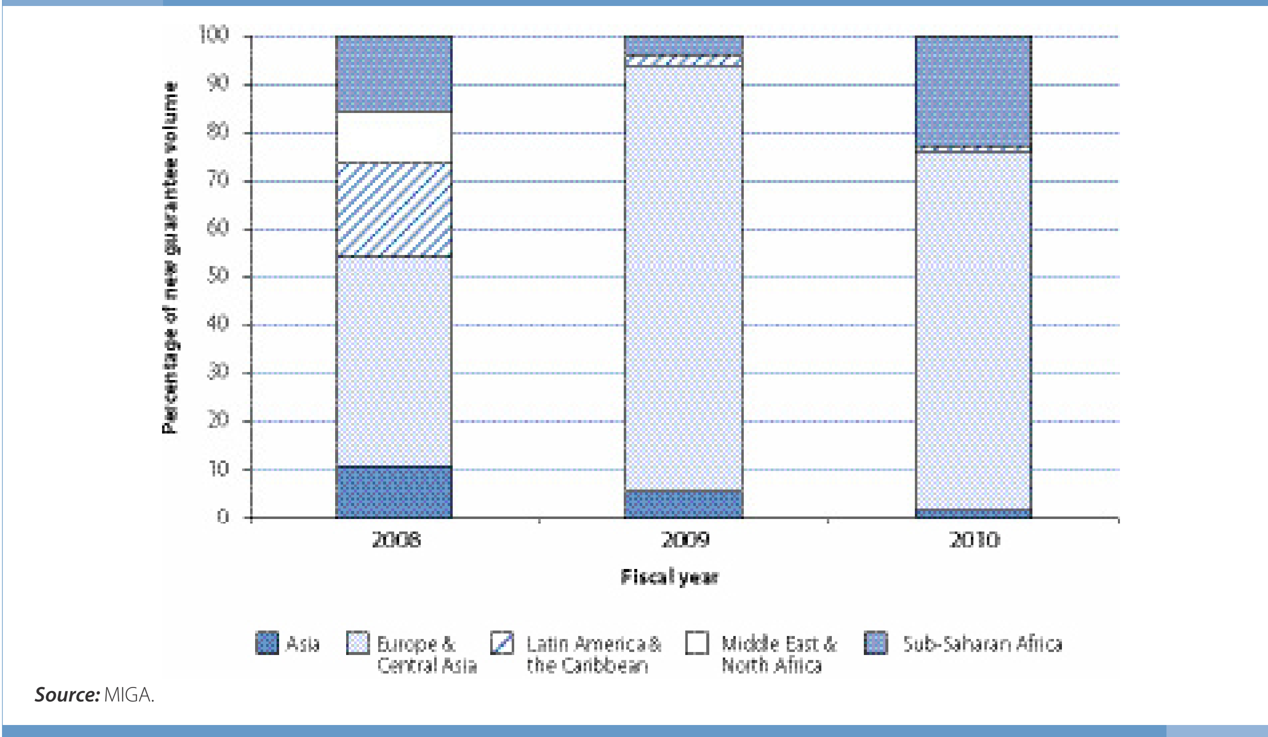
New guarantees issued became increasingly concentrated in the financial sector. MIGA's crisis response initiative resulted in a large share of its guarantee issuance concentrated in the Europe and Central Asia Region, and in the financial sector (table 3.10 and figure 3.11). In the 18 months between the onset of the crisis in September 2008 and March 2010, MIGA provided coverage to financial sector projects in the

FIGURE 3.10 Net IFC Commitments by Industry Cluster, Fiscal Years 2008 –10



Source: IFC.

FIGURE 3.11 MIGA: Volume of Guarantees Issued by Region, Fiscal Years 2008 –10



Source: MIGA.

Europe and Central Asia Region for $1.6 billion, almost 86 percent of MIGA's guarantees issued in that period. Support for infrastructure fell sharply, from just over a third of guarantees in fiscal 2008 to only 8 percent in 2009 and 27 percent in 2010, reflecting a weakening trend in foreign direct investment during the crisis. Guarantees in IDA countries and other MIGA priority areas (South-South investments, IDA, and conflict-affected countries) also declined as a share of guarantee volume. MIGA's guarantees became increasingly concentrated in terms of clients (guarantee holders), with the top two clients accounting for 80 percent of new guarantees issued in fiscal 2009.

MIGA's ability to respond to crises has been constrained by its Convention—which until its recent amendment has limited MIGA's ability to insure projects financed by freestanding debt or to insure financing of existing (brownfield) assets. MIGA's Convention was amended in July 2010, with effect from November 2010. This, together with MIGA's recently updated Operational Regulations, will allow greater product flexibility. MIGA also needs to address several major internal constraints to its business growth, including simplifying cumbersome business processes and revamping and refocusing its business development activities. The joint marketing agreement signed by IFC and MIGA in February 2009 is an important initiative, giving MIGA access to IFC's field presence and enabling cross-selling of services.[30] This agreement was followed up with an updated and enlarged cooperation agreement in March 2010 and with deployment of staff to IFC offices in Hong Kong and Singapore.