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PHASE II

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



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The World Bank Group consists of five institutions—the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). Its mission is to fight poverty for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

The Independent Evaluation Group

IMPROVING THE WORLD BANK GROUP'S DEVELOPMENT RESULTS THROUGH EXCELLENCE IN EVALUATION

The Independent Evaluation Group (IEG) is an independent unit within the World Bank Group. It reports directly to the Board of Executive Directors, which oversees IEG's work through its Committee on Development Effectiveness. IEG is charged with evaluating the activities of the World Bank (the International Bank for Reconstruction and Development and the International Development Association), the work of the International Finance Corporation in private sector development, and the guarantee projects and services of the Multilateral Investment Guarantee Agency.

The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank Group's work, and to provide accountability in the achievement of its objectives. It also improves Bank Group work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.

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

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Abbreviations

A2F	Access to finance
AAA	Analytic and advisory activities
ADB	Asian Development Bank
AfDB	African Development Bank
CAS	Country Assistance Strategy
CCT	Conditional cash transfer
CPS	Country Partnership Strategy
CSF	Countercyclical Support Facility
CSO	Department of Special Operations (IFC)
DDO	Deferred Drawdown Option
DPL	Development Policy Loan
DPO	Development Policy Operation
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
FCL	Flexible Credit Line
FIL	Financial Intermediary Loan
FPD	Financial and Private Sector Development
FSAP	Financial Sector Assessment Program
FSI	Financial Sector Initiative
FY	Fiscal year
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International financial institution
IIFCL	India Infrastructure Finance Company Limited
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
MDB	Multilateral development bank
MDTF	Multi-Donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
OP	Operational Policy
PBB	Performance-based budgeting
PEIR	Public Expenditure and Institutional Review
PER	Public Expenditure Review
PFI	Participating financial institution
RSR	Rapid Social Response
SDR	Special Drawing Rights
SHF	Sociedad Hipotecaria Federal
SME	Small and medium enterprises

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This second report of a two-phase evaluation of the World Bank Group's unprecedented response to the 2008–09 global economic crisis addresses questions raised by the findings of the Phase I evaluation regarding the Bank's crisis lending in the financial, fiscal, and social protection areas, and the adequacy of its lending instruments.

Many findings of the Phase I evaluation are reaffirmed in this report: the unprecedented volume of the Bank Group's response, especially to International Bank for Reconstruction and Development (IBRD) countries; accelerations in processing efficiency and disbursements; the positive role, in crisis response, of well-established country dialogue and country knowledge; the greater need to balance country focus with a global strategy notwithstanding; and the Bank's comfortable financial position at the start of the crisis, which was a key element underpinning its crisis response. Findings regarding the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have also been reaffirmed: IFC's largely pro-cyclical response, available financial capacity notwithstanding; its creative crisis initiatives, sometimes delayed in implementation; and MIGA's countercyclical support to key financial institutions in Eastern Europe.

At this time of renewed concern for the global economy, a key finding of this Phase II evaluation is that IBRD now has limited headroom to accommodate further crisis response—were it to become necessary. In response to a global call for strong countercyclical support, the Bank Group sharply increased financing, and its lending response was the largest among comparators. This was accomplished almost entirely by increased use of traditional instruments. The decline in headroom was partly a result of the high volume of IBRD financing, and also the decline in income following the reduction in loan spreads just before the crisis, the commitment of transfers to the International Development Association (IDA), and the calibration of the 2010 IBRD capital increase package to pre-crisis lending levels—strong management of equity income notwithstanding.

The Independent Evaluation Group (IEG) also found that the World Bank extended support to the majority of crisis-affected countries, often in the context of broader donor support packages, where the Bank played a relatively small role. It also found that most new lending in response to the crisis reflected pre-crisis lending patterns and had a low correlation with the severity of the crisis impact, though it was not thereby necessarily unjustified. Likely factors leading to this outcome include the role of well-established country dialogue and country knowledge and the need to stabilize countries of systemic importance or to step in, in the absence of other lenders.

Looking at specific sectors, IEG found that in financial sector and fiscal management operations, a large number of crisis operations—identified as those explicitly addressing the crisis and those newly introduced in country programs, increased in volume, or accelerated in timing following the onset of the crisis—had limited short-term crisis-response policy content and were based on areas that lent themselves to swift preparation, often through prior or ongoing engagement. They also lacked significant medium-term reform content, likely reflecting the difficulties of focusing on this in times of crisis. In crisis-related financial sector loans, although operations in the most deeply affected countries had relevant policy content and contributed to stabilization, loans to less affected countries tended to build incrementally on existing dialogue. In crisis-related fiscal management operations, policy content did not always bear directly on the crisis, sometimes fell short of solid medium-term engagement, and generally paid insufficient attention to fiscal space where countercyclical programs were put in place. Support in social protection was hampered by limited country capacity—knowledge, data, and pre-existing social protection mechanisms that could be ramped up—to specifically target those

who were made poor by the crisis. Partly as a result, the bulk of social protection-related Bank support went to social safety nets targeted to the chronically poor.

Regarding IFC, this Phase II evaluation finds that the Corporation did not achieve an increased volume of investments as a reflection of a strategic choice to protect its portfolio as well as an overestimation of the prospective deterioration in portfolio quality. Among its new crisis initiatives, Global Trade Finance and Global Trade Liquidity Programs were broadly successful, but others had implementation shortcomings. MIGA's financial guarantees in Europe and Central Asia contributed to stabilizing and restoring confidence, even though they were limited in scope. MIGA could have further increased the volume of new guarantees in response to the crisis, in line with other political risk insurers.

Going forward, a clear priority is the preparation of a roadmap for crisis engagement in both severely affected and less affected countries. This would include a review of the Bank's overall financial position as well as its instruments to enable more effective crisis support and help preserve headroom. At IFC, there is a need to reassess and refine the methodology for stress testing credit risks and to institutionalize its successful new crisis response platforms.

Context and Evaluation Framework

This evaluation assesses the World Bank Group's response to the global economic crisis. This is the second phase of a two-phase Independent Evaluation Group (IEG) evaluation of the World Bank Group response to the unprecedented global economic crisis of 2008–09. Average gross domestic product (GDP) growth among Bank client countries declined from 6 percent in 2005–07 to 1 percent in 2009; GDP growth in the hardest hit regions of Europe and Central Asia and Latin America and the Caribbean went from a positive 7 percent in 2005–07 to a negative 2 percent in 2009. Private credit growth in Bank client countries went from 9 percent in 2007 to 3 percent in 2009. Consistent with a global call for strong countercyclical support, the Bank's response, articulated as early as November 2008 in a paper to the G20 summit and formalized in a Board document on the Bank management's response to the crisis, sought to protect the poorest, stabilize the financial and private sectors, manage fiscal challenges, and secure long-term development expenditures, notably for infrastructure. The Bank announced in 2009 that it intended to triple IBRD lending, with new commitments totaling \$100 billion over three years.

Financially, the response was unprecedented. Average new commitments of Bank and IFC combined were \$63.7 billion a year in fiscal 2009–10, compared with less than half that amount each year over the pre-crisis period, 2005–07 (selected as a comparator, as this represented a period of relative stability). Of this amount, the bulk (\$45.4 billion, compared with \$18.7 billion pre-crisis) represented IBRD and IFC financing in middle-income countries.

Phase I findings and their discussion helped define the scope of this Phase II evaluation. The findings of Phase I have guided the selection of focal areas for Phase II, as have questions raised in discussions of the Phase I evaluation with key stakeholders, notably the Board of Executive Directors. Phase I flagged the need to watch results associated with World Bank Group financial sector, fiscal management, and social protection support, motivating the focus of Phase II on these three areas. Similarly, the adequacy of World Bank Group instruments and terms, and of IBRD's capital headroom, featured prominently in the Board discussion of the Phase I evaluation, motivating a more in-depth look at these issues in Phase II.

This Phase II evaluation retains traits of a “formative” evaluation—undertaken as events unfold—though less so than Phase I. Information on the results (outcomes) of World Bank Group interventions in support of client countries is still only partially available. Formal self-assessments and IEG reviews of many of the World Bank Group financing operations have not yet been conducted. In these respects, the Phase II evaluation retains some of the “real-time” characteristics of the Phase I assessment. At the same time, data on World Bank Group resource allocation and instruments during the crisis are now definitive. For most Bank client countries, there was substantial recovery from the crisis by 2010 in terms of GDP growth, which rebounded to an average of 4 percent. Even in the severely affected regions of Europe and Central Asia and Latin America and the Caribbean, the growth rate recovered to 3.6 percent and 3.1 percent, respectively, in 2010. This said, the latest developments suggest an increased likelihood of a “double dip” or at least further slowdown.

Core evaluation questions pertain to the relevance, efficacy, and efficiency of World Bank Group support. At the level of the overall World Bank Group response, the main question about relevance is the following: Was the increase in Bank Group financial support—relative to a baseline of pre-crisis lending patterns—related to the extent to which countries were affected by the crisis? On efficacy and efficiency, the questions include these: Were the terms of crisis response financing operations appropriate? How does this position the Bank Group to respond to future crises? At the level of World Bank Group support for a particular sector or thematic area, such as the financial sector, fiscal management, or social protection, the key evaluation question on relevance is the following: Were the results sought in World Bank Group financing operations economically beneficial and strategically relevant to countries, in light of their crisis impact as well as their contribution to medium-term development? On efficacy, the main questions include: Did Bank Group operations in the financial sector achieve the stabilization needs of financial institutions or help resolve structural issues in countries' financial systems? Did fiscal management-related operations help create fiscal space for pro-poor spending or structural reforms to foster fiscal sustainability in the near term as well as the medium term?

The evaluation takes into account the multidimensional nature of the crisis and uses data from diverse sources to assess its impact. Transmission channels ranged from financial sector stress to trade, exchange market pressure, fiscal positions, as well as GDP, and measures of stress based on them were only partially correlated. Armenia, for example, faced a sharp GDP decline and fiscal deterioration, but little immediate distress in its banking system or in its financial markets. Poland and Ghana faced pressure on their exchange rates, and Ghana experienced fiscal stress but little financial sector stress. By contrast, Ukraine faced stress in multiple areas of the economy.

Indicators used in this evaluation for measuring crisis impact reflect the principal channels of transmission, following a now significant literature. These include, for example, measures of export decline, reserve losses, credit growth, private consumption, and banking system deposit losses. High-frequency data for their construction were drawn from a variety of sources, including International Monetary Fund (IMF) and Bank data sets, Bloomberg, Datastream, and the United Nations social development databases. Data from other international financial institutions (IFIs) were provided directly by the institutions. Data

on social impact or real sector effects are scarce and typically lagged, though they are used to the extent available. Extending Phase I, which classified countries into three bands based on the severity of the crisis impact as measured by GDP decline, this evaluation uses a continuum of crisis impact and the wide range of indicators noted above.

Multiple approaches were used in the sector and thematic analyses. For the World Bank, these included the following principal elements: (i) a streamlined review of the entire lending program with content in the specific area of focus, based on program or project documentation, and (ii) in-depth reviews of operations in a purposively selected (stratified) sample of countries—28 operations in 18 countries for the financial sector and 16 countries and operations each for fiscal management and social protection—to ensure coverage of interventions across a spectrum of affected countries, in all regions and of all sizes, with oversampling of Latin America and the Caribbean and Europe and Central Asia, given the greater frequency of crisis response operations there. For IFC, all crisis response initiatives and investment projects underwritten as part of these initiatives, as well as Risk Management and Nonperforming Loan Advisory Services projects in Europe and Asia, were assessed. In addition, a sample of 50 investments in the financial sector, out of 266 investments (about 19 percent of the total) was reviewed. The assessment of MIGA's interventions is based on reviews of 17 guarantee projects that fit the criteria of crisis relevance. These in-depth reviews of World Bank Group operations were supplemented by interviews with staff and in-country stakeholders in up to four countries per sector where field visits were conducted. The time period for the evaluation is FY09–10, although sensitivity to alternative time frames was assessed, and some social protection operations in FY11 were also reviewed. Criteria for defining crisis lending operations were developed, and a key element was a significant departure from envisaged patterns of lending, as described in the country strategy (Country Assistance Strategy or Country Partnership Strategy) prior to the crisis.

Overall Response in the Context of the Broader IFI Response

Like other multilateral development banks (MDBs), the World Bank sharply increased the volume of financing it made available in response to the crisis. The Phase II analysis re-affirms the World Bank Group's large counter-cyclical response to the crisis noted in the Phase I analysis,

especially in terms of IBRD lending volumes. The Bank's response was somewhat greater than other MDBs and, mirroring other MDBs, included increased availability of fast-disbursing funds. The Bank's increase in lending to middle-income country clients also paralleled actions in other MDBs, as did the lower concentration of lending compared to the IMF, which focused selectively on a limited number of crisis-affected countries. IFC's introduction of the Global Trade Finance Program mirrored a general increase in trade finance initiatives by MDBs. The relative decline of World Bank Group nonsovereign operations during the crisis also reflected the trend in other MDBs, except at the European Bank for Reconstruction and Development (EBRD), where nonsovereign operations increased.

Much of the new lending in response to the crisis reflected pre-crisis lending patterns; partly as a result, the allocation of the financial response had a low correlation with the severity of the crisis impact. This finding differs from findings in the Phase I evaluation, which found, based on the simpler model described above, that lending allocation was associated with levels of stress. The finding of a low correlation between lending allocation and crisis impact remains robust if IBRD is considered separately from IDA, whose flexibility in allocating resources based on crisis impacts was more limited.

The low correlation between the allocation of new crisis lending and the severity of crisis impact does not necessarily imply that Bank Group support to the countries that received it was unjustified. A credible counterfactual analysis of what might have happened in specific countries in the absence of Bank crisis support would be virtually impossible to establish. Severely stressed countries may have been seen to be in need of reining in their spending. Some large borrowers may have been considered systemically important, and a signal of support may have been considered important for calming markets. New crisis lending may also reflect other factors that influence lending decisions, including country demand, country performance, and the engagement of other IFIs. Finally, these findings reflect lending allocation and crisis impact on an ex post basis; during the crisis itself, it would likely have been difficult to discern countries' levels of stress or the extent and duration of their need for support.

In a comparator group of MDBs, lending increases were mostly correlated with crisis intensity. These findings are based on comparisons of the Bank with MDBs having

a similar mandate, that is, excluding the IMF, which has a mandate to respond to crises, as well as the European Union and the European Investment Bank, which focused on crisis-affected European countries. These results may in part reflect differences among the Bank and comparator MDBs in lending policies, objective functions, business models, and possibly greater country risk aversion at IBRD relative to some other MDBs to better protect its portfolio.

IBRD's large lending volumes during the crisis were at historically low rates and were lower in cost than those of other IFIs, partly because of the record low market interest rates to which IBRD pricing is referenced, and partly because of a significant reduction in its lending spreads shortly before the crisis. The latter reflected its strong financial situation in 2007, when spreads were adjusted in the context of a package of measures aimed at reducing the cost of borrowing for middle-income country clients while sustaining net income transfers to IDA. At the same time, a number of loan features were also modified (such as the removal of differentiated maturity limits linked to per capita gross national income, and increasing the maximum loan maturities). Further changes in lending rates and product features were later introduced to reflect the crisis—the contractual spread was raised to 50 basis points in August 2009, and maturity-based pricing was introduced in early 2010. As a result, new crisis lending from IBRD generally had lower costs than from alternative IFI sources, with comparatively long maturities effectively further increasing its attractiveness.

IBRD's pre-crisis adjustments in the Deferred Drawdown Option (DDO), which flexibly allows drawdown in case of need, led to the DDO's increased use for crisis response, whereas the Special Development Policy Loan, first introduced as a crisis-management instrument in 1998, was scarcely used. Modifications to the DDO in 2007 allowed funds to be more flexibly drawn, without the need for review before each withdrawal, and led to its increased use for crisis. Pricing was revised upward in August 2009, which helped compensate for the capital implication—to the extent that DDOs are not drawn, they provide the Bank no revenue, although there is a charge against its capital. Seventeen Development Policy Loan (DPL)-DDOs were approved between April 2008 and December 2009, compared with an uptake of only two such operations in the years before 2008. In contrast, the Special Development Policy Loan, which carries a higher rate and lower maturity than regular IBRD loans, was used only once (although two further loans were extended on

Special Development Policy Loan terms), after revisions to its terms came into effect in September 2009.

In a comparator group of MDBs and IFIs, specific instruments were introduced (or revived) in response to the crisis, and the terms of their normal loans were adjusted during the crisis period. Specific crisis instruments reflected the higher risk, and likely shorter-term needs, associated with crisis lending. The IMF concluded a substantial overhaul of its lending framework in March 2009 and increased access in line with its enhanced financial capacity and with crisis needs, but its surcharges for above-quota borrowing and the time element for repayment provided incentives to repay soon and provided safeguards for Fund resources. The Inter-American Development Bank raised its spread to 95 basis points over LIBOR (the London Interbank Offered Rate) in June 2009, applicable to existing loan balances as well as new loans, and extended \$3 billion on special crisis lending terms. The Asian Development Bank achieved significant use of its (pre-existing) Countercyclical Support Facility, extending loans to six countries. The Facility's loans were priced above its regular loans, had lower maturities, and did not require an IMF program. The African Development Bank introduced an Emergency Liquidity Facility, priced similarly above regular loans and with a lower maturity. Partly as a result, these institutions were better positioned than IBRD to protect their financial capacity, at least in terms of loan spreads, even as they responded to the crisis.

IBRD's response to the crisis, together with changed market conditions, has entailed a decline in its headroom to accommodate another crisis lending response, should one be called for in the near term. The rapid increase in lending with a limited increase in capital and reserves has led to a decline in the Bank's equity-to-loan ratio, from a peak of more than 37.5 percent before the crisis—well above the long-term target—to around 28.5 percent at the end of FY10. According to Bank management's forecasts, this ratio is projected to gradually decline further until FY15–17, given the long disbursement periods of IBRD loans, and to recover thereafter. The depletion of headroom to maximize crisis response constrains future lending and thus limits the IBRD's opportunity for response to large-scale crises in the near future, or to a prolonged and uncertain recovery.

IFC did not increase its investments in response to the crisis; protecting its portfolio was a major driver for its actions. Stress tests that overestimated adverse outcomes

may have contributed to IFC's posture. IFC strengthened and prioritized the functions of its portfolio management, adjusted its investment mix, introduced a corporate tracking system to monitor the status of investments, and took measures to enhance productivity and efficiency. These actions, as well as a cautious “wait-and-see” attitude in the business community, led to an initial decline in investments and was overall a procyclical investment response, with the notable exception of an increased and sustained focus on IDA countries. The modest increase in IFC's distressed assets to 4.4 percent, compared with 16–18 percent in previous crises, is not entirely attributable to IFC's defensive actions, as the crisis produced a relatively mild impact on emerging markets.

The fall in IFC's investments contrasted with the expansion in EBRD's investments, in part because of EBRD's concentration in a single region. The imperative to protect stability in Europe and Central Asia was closely aligned with EBRD's need to safeguard its own investments. In contrast, IFC, with a more diversified portfolio, did not have the same alignment. EBRD also relaxed its financial policies to take on more risks—steps that IFC did not take.

MIGA anchored its strategy in recognition of the need for coordinated international efforts, counterbalanced by its assessment of potential risks to its guarantee portfolio. Its commitments were broadly stable over the crisis period, and its activity compared with other Berne Union public or private insurers declined over the period, despite its relative advantages of longer tenors and a comfortable initial capital position. Restrictions in its Convention and operational regulations that precluded it from offering certain products may have exacerbated this.

Sector Support

This Phase II report evaluates relevance and efficiency of new crisis lending through financial, fiscal management, and social protection operations in response to questions raised in the Phase I evaluation. It finds that many operations had limited content in terms of strengthened policy response for the crisis and beyond. In particular, it finds that the policy content of lending operations was limited in addressing both short-term crisis impact and medium-term development goals. In some cases, consistent with the institution's lending policy to promote sustainable poverty reduction and socioeconomic development, useful medium-term reform was undertaken. In others, the difficulty of focusing on the medium-term

agenda during a crisis tended to limit the extent to which those goals could be achieved. Many lending operations during the crisis had of necessity to rely largely on existing country engagements, which then became a substantial focus of its crisis operations, especially in less affected countries. As a result, many operations featured neither support to short-term policy responses to the crisis (for example, through protection for social or infrastructure expenditure) nor the furthering of a solid medium-term reform agenda (for example, through tackling structural issues in banking reform or creating “automatic stabilizers” for social protection during crises).

Financial Sector Support—Public and Private

Support to Governments: The World Bank

Lending to the financial sector was a significant component of the Bank’s response. Commitments of new lending with some financial sector content amounted to \$53 billion per year during the crisis, compared with around \$25 billion per year prior to the crisis. Looking at financial sector content on a weighted basis, commitments grew from some \$1.8 billion per year to \$6.7 billion per year.

Few of the Bank’s clients suffered acute stress in their financial systems. Of these countries, only a handful, mostly in the Europe and Central Asia Region, suffered from systemic bank distress. This partly reflects financial sector strengthening before the crisis with Bank support. However, a larger number of countries experienced credit contractions and severe declines in their stock markets.

Most of the Bank’s financial sector lending during the crisis went to countries suffering a moderate degree of financial stress. Although the majority of countries that experienced severe financial sector stress received some lending, the majority of lending went to countries that had moderate to low levels of stress. Especially in moderately affected countries, most lending was fragmented in multisector support, and a large part was not directly relevant to the crisis.

There was negligible difference in the nature of financial sector thematic content between crisis-related and other financial sector lending in the crisis period. Fourteen percent of the sector content of crisis operations focused on micro or small and medium enterprise finance; banking accounted for another 13 percent of subsector content in both groups. Measures for noncrisis operations are similar, with 11 percent for small and medium enterprise finance and 15 percent for banking.

The Bank’s policy loans in support of financial reform in deeply affected countries had relevant policy content, focused on crisis-related themes, and contributed to stabilization. There was greater emphasis on short-term issues—related to liquidity and credit shortages—than in the less affected countries. Loans to countries such as Latvia and Ukraine were tailored to the circumstances of the crisis. But the financial role of the Bank was small, and its funds were often provided late relative to immediate crisis needs; its main contribution may have been to help signal a coordinated IFI response. Bank operations in deeply affected countries focused on more medium-term issues than the IMF, whose support tended to cover the most immediate issues. Despite the largely appropriate focus of Bank interventions, sustainability has been mixed, and some deeper structural issues persist.

The Bank’s crisis-related financial sector operations in moderately affected countries were based on areas that lent themselves to swift preparation, often through prior or ongoing engagement. These countries faced obstacles—from reductions in exports, growth, employment, and capital flows from abroad—often compounded by large credit expansion before the crisis, but did not suffer a financial crisis. In countries without IMF Stand-By Arrangements, such as India, the Bank was the chief provider of advice and support. Bank operations often covered several sectors with a single DPL, as in Turkey or Mexico. Many financial sector actions supported by these multi-sector DPLs tended to build incrementally on existing dialogue and were medium term in orientation rather than crisis related. In some cases, the operations supported useful medium-term reform. But in other cases—as in Egypt, India, and Nigeria—opportunities for financial sector strengthening in key areas were not seized. This reflected the speed with which these operations were prepared, as well as the absence of immediate crisis impact on these countries’ financial systems. Support for countries’ gross financing needs, sometimes precautionary, and—as in the case of deeply affected countries—signals of support to markets were arguably the Bank’s major contributions in these operations, and the precise sector vehicle was probably a lesser issue.

In addition to DPLs, the World Bank extended a third of its crisis assistance to the financial sector through financial intermediary loans (FILs). Bank lending through FILs was intended to directly address the credit needs of the most vulnerable market agents. However, few FILs were able to disburse rapidly, although loans to ex-

perienced institutions, repeat loans (select FILs to Turkey and India), and loans to exporters (for example, Croatia) disbursed faster.

The Bank's support to countries' financial sectors during the crisis depended also on its engagement before the crisis, especially through advisory activities. Much of the support was in the form of Financial Sector Assessment Programs undertaken as joint exercises with the IMF, which had generally identified the countries' financial sector vulnerabilities and provided a good basis for crisis intervention. The Bank's overall engagement in the financial sector with the countries that received loans was adequate, though there had been some decline Bank-wide in volumes of financial analytic and advisory activity (AAA) in the preceding years.

Private Financial Sector Support: IFC and MIGA

An important part of IFC's crisis response took the form of global initiatives (in most cases new), including the creation of a new subsidiary. The Global Trade Finance Program, a pre-existing facility whose ceiling was raised to \$3 billion in late 2008, sought to extend guarantees to international banks to cover risks relating to trade finance. The related Global Trade Liquidity Program, which had aggregate funding of more than \$4 billion as of early 2010, mobilized funding from IFC and partners to fund trade finance in individual banks. The \$3 billion Bank Recapitalization Fund, established in early 2009 with IFC and partner funding, sought to provide banks in emerging market countries with tier 1 equity and tier 2 subordinated debt to strengthen their financial capacity. The Debt and Asset Recovery Program, established in 2009 with a target of \$6–8.5 billion contributed by IFC and IFI and private partners, sought to invest in specialized companies that manage and restructure pools of distressed assets and to provide complementary advisory services. The Infrastructure Crisis Facility, which aimed to mobilize up to \$10 billion from IFC and partners, sought to ensure the availability of long-term financing for private or public-private infrastructure projects in emerging markets. Finally, the Microfinance Enhancement Fund, with an initial IFC investment of \$150 million, together with provisions for possible further contributions by IFC and partners, sought to provide refinancing to up to 100 microfinance institutions in as many as 40 countries.

IFC also provided advisory services and undertook investments on its own account in the financial sector. Among the advisory services that IFC provided dur-

ing the crisis, more than half—involving commitments of \$8.1 million through the end of 2010—related to access to finance, covering risk management and portfolio monitoring and workouts as well as nonperforming loan management. Regarding IFC's financial response, around 55 percent (\$11.8 billion) of its commitments on its own account (September 2008 and June 2010) were in the financial sector.

The Global Trade Finance Program and Global Trade Liquidity Program initiatives were broadly successful. The initiatives leveraged and built on IFC's strengths, including global and local knowledge of financial markets and its AAA credit rating, to help alleviate potential trade finance shortages. Although the volumes of support from the Global Trade Finance Program and Global Trade Liquidity Program are small relative to global trade flows and their impact is difficult to quantify, it is likely that the initiatives helped small businesses whose needs may not otherwise have been met. Delays associated with setting up the Global Trade Liquidity Program explain the lag in disbursements relative to initial targets.

The other global initiatives—the Bank Recapitalization Fund, the Debt and Asset Recovery Program, the Infrastructure Crisis Facility, and the Microfinance Enhancement Fund—suffered from implementation delays that undermined their effectiveness. Start-up difficulties account for Bank Recapitalization Fund commitments running at less than one-third of target as of the first quarter of 2011. Although additionality is evident in most of these transactions, they have for the most part been too small to have a systemic influence; there are some important exceptions, such as the investment in a leading bank in the Philippines and a regional bank in Africa. The majority of Debt and Asset Recovery Program transactions were approved in late 2009 and the first half of 2010 because Debt and Asset Recovery Program deals, like most individual IFC investments, take time to develop, structure, and execute. Because of limited partner interest at the program level, the Debt and Asset Recovery Program has been unable to meet its financing target; in addition, few of its projects appear to have had a systemic impact, possibly because of the reluctance of banks to dispose of nonperforming loans. The Infrastructure Crisis Facility also took more time than expected to launch; its commitments and disbursements are far lower than anticipated. Low uptake of the Microfinance Enhancement Fund may be explained by the fact that the credit crunch was greatest between mid-September 2008 and the end of February 2009, when the Fund was not yet

operational. Administrative delays also account for below-target disbursements. Nonetheless, the Microfinance Enhancement Fund has had a positive impact, beyond what its size would suggest—in selected countries, such as Azerbaijan, Armenia, and Bosnia and Herzegovina—by restoring confidence in microfinance lending.

It is too early to judge the effectiveness of access to finance Advisory Services. The access to finance Advisory Services crisis response program components were by design not intended to focus on the immediate effects of the crisis, but rather on the outer stages and aimed to build greater resilience to possible future crises. IFC identified a genuine gap in financial stability by building capacity for the implementation of better risk management and non-performing loan disposition. Within a short time, the program was able to build capacity and expand the scope and reach of activities in partnerships with local institutions, financial intermediaries, IFC investment staff, and other IFIs. It is too early to assess the effectiveness of the initiatives, given the longer-term nature of the issues they are trying to address, but in-depth engagements with a few banks and on regulations in Ukraine provide a platform for impact going forward.

IFC's financial sector investments on its own account appeared mostly to pursue goals other than systemic impact and took time to materialize. The risk profile of IFC's investments and assets (IEG used the risk weights IFC uses to determine economic capital to calculate IFC's risk profile) did not change markedly over the crisis period. Of IFC's financial sector investments, IEG reviewed a sample of 50 projects, two-thirds of which were explicitly identified as responding to the crisis. In 8 of the 50 projects (for example, equity investments in major banks in Egypt and Mexico), project size combined with the size of the bank involved was significant enough to have a systemic impact. Of the remainder, equity projects were dominated by private equity infrastructure funds and had diffuse objectives, rather than focusing on immediate impact. Line of credit operations harbored multiple objectives, many peripheral to the crisis. The balance of projects likewise addressed objectives that were not crisis related, such as increased access to health care in Romania and energy efficiency with a line of credit in Turkey. Many of IFC's financial sector investments were approved between February and May 2010, well over a year after the crisis had begun.

IFC took significant measures to protect its portfolio. Initial conditions facing IFC at the outset of the crisis

included limited capital headroom, significant planned transfers to IDA, and prospective losses on its existing portfolio. IFC intensified its risk monitoring, undertook stress tests, readied its structures to deal with workout requirements (notably through staff transfers and decentralization of portfolio management), and took measures to contain its costs. More than 50 percent of its investments during the crisis period were aimed at stabilizing the operations of existing clients. IFC worked proactively with key clients to ensure efficient cash flow management, restructuring where needed and mapping projects in need of support.

MIGA's crisis response, concentrated in Europe and Central Asia, met its target, although the volume of new guarantees could have increased further. Under its strategically relevant March 2009 Financial Sector Initiative, part of a wider Joint International Financial Institution Action Plan, MIGA sought to commit \$2–3 billion in gross exposure for political risk insurance on cross-border investments by financial institutions aiming to recapitalize their subsidiaries. Subsequently, MIGA issued \$2.13 billion in new guarantees on a gross basis (reinsuring roughly half), just to European banks in support of their subsidiaries in the Europe and Central Asia Region. MIGA's Financial Sector Initiative played a modest but important role in helping improve banking sector conditions in Europe and Central Asia countries. Although it is difficult to attribute results solely to MIGA's contribution, the broader IFI Action Plan (and therefore MIGA as one modest player) successfully contributed to stabilizing and restoring confidence in the financial markets. Nevertheless, MIGA's response did not reach beyond a small number of existing clients, at a time when the low level of MIGA's volume of business relative to that of both private and public providers of political risk insurance in developing countries, as well as its substantial capital headroom, strongly suggested that MIGA could have realized a larger volume of business, notably in riskier country contexts.

Coordination and collaboration across the Bank, IFC, and MIGA in financial sector interventions during the crisis appear to have been variable, with limitations. Around 8 of the 14 crisis-related FILs reviewed complied broadly with the Bank's operational directives on World Bank Group cooperation. For MIGA, IEG's analysis found little cooperation at the operational level with either the Bank or IFC, but considerable coordination in the formulation of MIGA's crisis strategy.

Support to Fiscal Management

In FY09–10 the Bank provided crisis-related lending in support to fiscal management to 48 countries through 67 DPOs, amounting to \$23.3 billion in commitments. These operations amounted to two-thirds of DPOs with fiscal management content approved in FY09–10 and were either supplemental or new operations (often unanticipated, or increased in amount relative to plans outlined in the country strategy document), made mostly through the IBRD window.

Many Bank client countries' fiscal positions were robust at the outset of the crisis. Favorable global economic conditions in the years before the financial crisis helped many developing countries strengthen their fiscal balance—and also their external positions, including by building sizeable cushions of foreign exchange reserves. These countries with stronger fiscal positions had, to varying degrees, some space for deficit financing and countercyclical fiscal response to the crisis.

Some countries, however, found themselves vulnerable because of overheating, with growing external imbalances and overextended domestic credit, or were adversely affected by the energy and primary commodity price shocks that preceded the global economic crisis. Countries with high debt and fiscal deficits faced a risk of debt distress when international capital flows evaporated. Fiscal consolidation was a key priority in these countries.

The Bank sought to help vulnerable countries meet their gross financing needs while adjusting revenue and expenditure policies to the fiscal conditions created by the crisis. A stated overarching priority of Bank support was to assist countries protect investments in social development and infrastructure, especially when fiscal space existed for countercyclical fiscal management.

Crisis-Related Policy Operations with Fiscal Management Content

The pattern of increased commitments reflected roughly the pre-crisis pattern of lending. Increased support was concentrated in the 25 countries with moderate fiscal stress: of the 48 countries that received crisis-related fiscal management DPOs, 13 entered the crisis with high fiscal stress. The pattern of Bank financing according to client country fiscal stress may reflect the fiscal space that existed for countercyclical response in less stressed countries.

Most crisis-related fiscal management DPOs used traditional Bank instruments. None of the operations with fiscal management content was made on special DPO terms. Of the 67 crisis-related fiscal management DPOs, 9 were designed as precautionary DDOs for 7 countries. Among the examples were DDOs for Indonesia and Peru, which helped strengthen the credibility of the countries' financing plans in the face of potentially jittery financial markets.

The policy content of fiscal management-related crisis-response DPOs did not always bear directly on the crisis. Fiscal objectives that featured prominently included strengthening macroeconomic management and fiscal sustainability, raising the efficiency and effectiveness of public expenditure, and improving public financial management. But in about half these DPOs, sector focus was unrelated to the crisis, as in El Salvador (primary education and science and technology policy) and Costa Rica (telecommunications and insurance). Although this may be understandable in the case of programmatic DPO series, it is less so for stand-alone DPOs. In some cases, the fiscal measures supported by the DPOs were part of an ongoing structural reform agenda, not necessarily called for from a countercyclical perspective, and were not modified to respond to the fiscal challenges raised by the crisis despite being contemporaneous with it—Vietnam and Peru (additional financing for a second DPL) are examples.

Although many of the fiscal management-related DPOs embodied measures to improve the cost-effectiveness of public expenditures, politically sensitive measures were much less frequent. Examples include the reduction of subsidies in fiscally stressed countries. This pattern is likely to reflect the difficulty of undertaking such politically sensitive dialogue in the midst of a crisis. Actions requiring specific fiscal targets to be met were also infrequent, including in countries under high fiscal stress. Overall, measures to restore sound fiscal positions in fiscally distressed countries—such as measures to reduce or reprioritize spending on a sustainable basis—were often insufficient.

About half of the DPOs included provisions for protecting social and infrastructure programs. Provisions to protect social and infrastructure expenditures were more frequent in countries with low and moderate fiscal stress than in countries with high fiscal stress. In countries with low fiscal stress, reprioritization of the investment program occurred in most DPOs: more than half of the DPOs scaled up public works programs, and one-third contained measures

to safeguard education and health spending. Overall, in the 48 countries receiving fiscal management operations several DPOs provided for concrete, often costed, measures to protect or scale up pro-poor expenditures (examples include Ghana, Poland, and Romania). In some cases, the Bank provided crisis-related financial support to social expenditures through specific investment lending operations and DPOs. However, in parallel with financing of specific social programs, crisis-response DPOs with a focus on fiscal management would have been an important instrument to address expenditure trade-offs within an affordable medium-term fiscal envelope.

Attention to revenue or spending measures needed to create fiscal space in countries with countercyclical programs was often insufficient. For instance, in Vietnam, the Poverty Reduction Support Credit and Public Investment Reform DPL provided resources for a stimulus package but did not embody measures to support or guide the package. Partly reflecting insufficient fiscal space or irreversibility of stimulus measures, partly insufficient forward-looking measures to attain fiscal sustainability, and partly the underestimation of the impact of the crisis on fiscal positions, a majority of countries receiving fiscal management-related DPOs emerged from the crisis with weaker fiscal positions. This said, caveats apply to attributing the fiscal outcomes post-crisis to the Bank's fiscal management-focused DPOs.

Structural Reforms and Analytic Underpinnings

Structural reforms in fiscal management-related DPOs were mainly in public financial management. Public financial management—which includes measures to improve budget planning, execution, comprehensiveness, and transparency—was a key focal area for crisis response DPOs, particularly on preparation and execution processes. In many countries, these reforms were part of an integrated approach to strengthening public financial management, though in some cases the efforts appeared partial or piecemeal. Although public financial management reforms did not pertain directly to the fiscal policy stance, it is to be expected that for a given policy stance, stronger public financial management would help bring about better fiscal outcomes. Given the long-term, institutional nature of public financial management reforms, stand-alone crisis response operations are not the best instrument to foster them. In addition, the focus on public financial management in the Bank's crisis response notwithstanding, structural fiscal reforms sometimes remained unaddressed.

Analytical underpinnings of fiscal management-related DPOs were generally sound. Despite the stretching of its administrative budget, the Bank actually delivered more public finance-related AAA during the crisis than immediately before it, with concentration evident in countries experiencing high fiscal stress; in these countries, compared with low and medium stress countries, deliveries were stepped up. The Bank's knowledge base in public finance thus enabled a program to be built in many countries. However, where pre-crisis engagement had waned, including through a fall in lending volumes, knowledge gaps were noted. In these countries specifically, the Bank was unprepared to help map out actionable forward-looking programs in public finance to address the crisis. The knowledge base in public financial management was generally adequate.

Support to Social Protection in the Crisis

World Bank support for social protection took place in the context of a major adverse impact of the crisis on poverty and investment in human capital. The global economic crisis came on the heels of food and fuel price crises, so adverse impacts on households were all the more pronounced. It is estimated that the crisis was responsible for swelling the ranks of the poor globally by an additional 53 million people in 2009. Ramifications of the crisis for households were typically threefold: fewer jobs and lower earnings, lower remittances, and reduced access to basic social services. The actual impact of the crisis on individual households also depended on social protection programs available in the country.

The major channel through which households were affected—which matters for the design of policy responses—differs among countries. For instance, policy responses to contractions in informal sources of income would differ from those to contractions in formal sources. In many countries in Europe and Central Asia, severe GDP contraction was accompanied by reductions in employment and stagnant wages. In some of these situations, a decline in remittances and restrictions on social spending aggravated the impact on households, driving more than 10 million additional people into poverty than estimated in pre-crisis projections. Latvia was one of the worst affected countries in that region. In Latin America and the Caribbean, the crisis was milder and social spending better protected, and a high degree of informality typically cushioned the drop in formal employment. However, in some countries, especially in Central America and the Ca-

ibbean, a drop in remittances and exports to the United States aggravated the downturn. Compared with the food and fuel price crises, the financial crisis had stronger labor market channels.

Readiness of countries' social protection systems was a binding constraint. Essential elements for effective social protection policy responses comprise (i) available social protection programs that are able to mitigate crisis impacts on those affected, whom policymakers wish to target, and (ii) relevant knowledge and data on which groups are being affected. Based on survey results and the 16 case studies undertaken for this evaluation, client countries were generally not well prepared to respond to the crisis—even among middle-income countries with fairly well-developed social protection systems.

The appropriateness of existing social protection programs for responding to the crisis differed across countries. In Europe and Central Asia countries, the programs that could be used to mitigate crisis impacts were typically small. Often systems were fragmented and their various programs not well coordinated, leading to limited impact on beneficiary well-being. Although unemployment insurance is widespread in Europe and Central Asia, coverage tended to be scant—on average, less than one-third of the unemployed—and covered only short periods. In contrast, in some countries, categorical programs not designed to respond to shocks, such as pension schemes and veterans' benefits, had broad coverage but were expensive. Flexible risk-management programs, which can compensate workers who lose earnings but who are not classified as formally unemployed, were weak in countries with high informality, especially in Latin America and the Caribbean. In such cases, targeted safety nets were the main crisis response programs used—mainly conditional cash transfers (in Guatemala, Jamaica, and Mexico). Conditional cash transfers have been expanded in many Latin America and the Caribbean countries since the late 1990s. But these are mainly geared toward the chronically (rather than transitory) poor, mainly women and children, and their intake processes are typically too inflexible to accommodate large numbers of additional poor that result from labor market contractions. Better-prepared countries typically had broader social protection systems whose different programs complemented one another, which allowed flexible scaling up and reaching crisis-affected and poor and vulnerable people.

Availability of adequate data and knowledge varied. Countries in Europe and Central Asia tended to have regular data on changes in household well-being and labor

market outcomes. In many countries in Latin America and the Caribbean, however, data and knowledge were more problematic. Therefore, decisions by the countries and by the Bank on how to allocate support to social protection responses had to be made with limited information. The Bank has increased its support to countries in monitoring the crisis impact on households through repeated surveys, but only in Europe and Central Asia has it been possible to undertake real-time analysis.

Social protection-related Bank financing went to a few middle-income countries in Latin America and the Caribbean and Europe and Central Asia, and the bulk was for poverty-targeted safety nets. Bank lending for social protection increased dramatically during the crisis period. In all, the Bank approved 136 operations with social protection content (a total of \$9.8 billion of social protection commitments) to 83 countries between the start of FY09 and the end of the first half of FY11. The bulk went to poverty-targeted social safety net mechanisms, and more than three-quarters went to countries in Latin America and the Caribbean and Europe and Central Asia. Most of the lending (some \$8 billion) was aimed at mitigating the adverse effects of the crisis on household well-being, with the remainder geared toward other (for instance, longer-term) goals. Nevertheless, 53 percent of the support went to countries whose real economies were not severely affected by the crisis. More importantly, the ratio rises to 77 percent if Mexico (a highly affected country that received 31 percent of social protection support during the crisis) is removed from the analysis.

The Bank's ability to help protect workers from crisis-induced labor market contractions was constrained because of the limited availability of flexible risk-management programs, especially in countries with high informality. The immediate severity of the crisis did not allow for the development of new and more efficient programs. Instead, safety nets targeting the poor and vulnerable were the type of social protection programs with the largest increase compared with pre-crisis levels. This was mainly because of the Bank's support for the ongoing scale-up of conditional cash transfers, mostly in Latin America and the Caribbean. However, such permanent safety net programs may be best suited to addressing chronic poverty and are not typically flexible enough to protect otherwise near-poor who are not eligible for poverty-targeted benefits. Because of the general lack of country instruments, a relatively small amount of the additional crisis lending went to programs aimed to automatically absorb household shocks channeled through

the labor market. With unemployment insurance covering only some formal sector workers and cash assistance providing for the poor, informal sector and rural workers easily fall between the cracks in the absence of programs that are able to provide support for this “missing middle” of the scale.

However, in some countries, the Bank provided support to mitigate contractions in the labor market, mainly through scaling up unemployment insurance. In others (for instance, El Salvador, Latvia, Mexico, and Moldova), the Bank supported the launch or scaling up of temporary labor-intensive public works or income-support programs, which can benefit both formal and informal sector workers affected by the crisis; they can be especially effective in countries with high informality. Where needed, the Bank also supported efforts to mitigate adverse impacts of household coping strategies on investment in human capital (for instance, pulling children out of school or reducing health care usage).

Short-term Bank support consisted of financing and technical assistance—linked to maintaining spending on well-functioning social protection programs—for program expansion and modification. Lending for crisis mitigation mainly went to middle-income countries. However, a small amount of support through the Rapid Social Response trust fund for nonlending technical assistance aimed to build long-term institutions and systems and went to a number of IDA countries. In addition, the Bank’s new social protection strategy emphasizes social protection solutions in low-income and fragile states.

The Bank also provided support for medium- and long-term social protection objectives. In many countries, the Bank’s support during the crisis was part of a long-term engagement on social protection. One-fifth of projects did not aim to mitigate specific crisis impacts and could accommodate institutional reform and capacity-building goals. This was a particular focus in countries where systems were weak or knowledge scarce. Rapid Social Response trust fund monies were intended to build and strengthen safety nets in low-income countries, and Rapid Social Response-funded activities were used as a springboard for future investment lending in social protection. Although momentum has yet to build up in many countries, the crisis has provided an opportunity for the Bank to start to move ahead on the long-term agenda of reforming countries’ social protection systems and building the nuts and bolts of systems and institutions.

Given the limited availability of real-time data, targeting of crisis-affected groups was often not possible. The effectiveness of Bank support in addressing impacts on households depends on appropriate design, including setting relevant targets and having adequate monitoring and evaluation. About half of the projects that aimed to mitigate the impacts of the financial crisis explicitly targeted specific crisis-affected groups. Likewise, projects did not monitor the impact of the crisis. Rather, projects generally targeted and monitored “the poor and vulnerable.” Because countries did not have available well-designed temporary insurance programs for the newly poor and near-poor workers, the Bank prioritized the poor and vulnerable through its support to social safety nets. It is not known whether using programs that target all poor below a certain threshold in order to mitigate the impacts of the crisis would reach the most affected groups in the most efficient way.

Going Forward

Continuing global uncertainties and a slow recovery underscore the need to improve future crisis preparedness. This is true in spite of the fact that the immediate effects of the 2008–09 global economic crisis appear to be largely behind most of the Bank Group’s client countries, and many of the Bank’s crisis interventions have been brought to conclusion. Select priority areas that would merit attention are flagged here.

A clear priority would be for Bank Group management to prepare, and the Board to endorse, a roadmap for crisis engagement. Such a roadmap would include a systemic analysis of stress factors and a decision-making process for blending country-level responses within a global strategy to apply scarce resources where they are most effective and could include a coherent package of lending and AAA support. The roadmap could also review the extent to which it may be desirable to maintain or rebuild headroom to restore the Bank’s future ability for crisis response in the context of overall capital and other income and allocations.

In regard to severely affected countries, such a roadmap could focus on terms of partnerships and instruments. The roadmap could usefully articulate the Bank Group’s role in wider IFI partnerships and the extent to which common targets are to be relied on; broad divisions of roles and responsibilities; options for accelerating loan processing times; the use of forward-looking program-

matic DPLs for effective intervention; and policies toward IBRD graduates during crisis.

In parallel, the roadmap could also articulate the rationale, modalities, and instruments for crisis lending to less affected countries. Lending objectives in less-affected countries during crises could include countercyclical fiscal support, recognizing the contribution of such support toward preserving longer-term development. In this context, the roadmap could indicate transparently that stabilization to counteract market uncertainty is a recognized goal for the Bank, in addition to traditional medium-term sector development. In this context, it could elaborate the extent to which stabilization to counteract market uncertainty is a recognized goal for the Bank, in addition to traditional medium-term sector development. In these less affected countries, where the Bank could intervene in the absence of the IMF or other IFI and MDB consortia, financing would not necessarily be tied to specific previously achieved sector reforms but instead could be linked to the maintenance of good performance—similar to the present IBRD DDO. Maintaining a sound macroeconomic, fiscal, and financial framework would merit special consideration to ensure that a program of countercyclical response is affordable, as would commitments to preserving key fiscal and financial targets appropriate to the crisis. Using stand-alone DPOs might be an appropriate option in these cases, especially if support to structural reforms that require a long time to implement is not sought.

As part of a review of the Bank’s overall financial position, a review of the Bank’s financial products would seek ways of delivering crisis support more effectively. Elements of such a review would include the flexibility for price adjustment on standard loan products during crises and assessing the usefulness of explicitly countercyclical loans, with premiums in terms of spreads and/or shorter maturities, for countries with sound fundamentals that normally enjoy good access to markets. The IBRD Special Development Policy Loan already has these features, but one key difference would be that the requirement to have a disbursing IMF program in place would not apply. Such a shorter-maturity, countercyclical support facility would have the benefit of more rapid repayment, preserving headroom for longer-term development financing or future crises.

In recognition of the value of prior country knowledge and engagement, the Bank Group could consider formalizing commitments to maintain an adequate knowledge base in countries across relevant sectors to maintain crisis readiness. With regard to economic policy and financial sector work, a commitment could be made to undertake core diagnostic work regardless of the lending program. Maintaining a strong knowledge base is an important prerequisite for effective crisis intervention, which strikes an appropriate balance between longer-term development issues and short-term measures of risk and vulnerability.

The Bank could also affirm its commitment to progress toward the adoption of a systemwide approach to social protection and risk management—beyond social safety nets—to ensure that data and programs are available to cope with crises. Appropriate responses require identifying dominant household transmission channels and groups of people affected, recognizing the need for more flexible risk management programs in countries with high informality. Between unemployment insurance reaching a small number of formal workers and cash transfer programs for the structurally poor, there is a “missing middle” of programs that can support the transient and near poor. The forthcoming social protection strategy can appropriately emphasize the importance of developing the “nuts and bolts” of social protection programs and of building country systems for greater future crisis preparedness.

IFC would benefit from a reassessment and refinement of its methodology for stress testing credit risks. Relying on historical macroeconomic data based on extreme events, IFC overestimated its potential portfolio deterioration, contributing to its cautious investment decisions. In the future it would be desirable for IFC to conduct more granular stress tests, reflecting a more comprehensive methodology that reflects the current portfolio.

IFC could also consider formalizing crisis arrangements rather than establishing new structures in a crisis. In this context, an effort should be made to institutionalize the successful newly established platforms as permanent contingent arrangements that can be reactivated in the event of financial turbulence.

Management Response

Management welcomes the opportunity to set out its views on the Independent Evaluation Group's (IEG) second "real time" evaluation of the World Bank Group response to an unprecedented event in the history of the Group. A year ago, IEG presented its first-phase evaluation findings. As management noted then, it appreciated "the evaluation's finding that the Bank Group's response was quick, relevant, innovative, and effective across a range of aspects that could be observed within the short period of time since the onset of the crisis and the Bank Group response." Management also appreciated "that the evaluation found the Bank responsive not only in scaling up countercyclical financing, but also in providing timely knowledge services through analytical support, particularly at the country level" (IEG 2010, p. xxi). In addition, management noted that the International Finance Corporation (IFC) executed its countercyclical role in a number of ways, including participation in the Joint Action Program for Central and Eastern Europe, a very successful scale-up of trade finance and a broad range of targeted initiatives with various development partners.

The Context and Response

It is good to recall that beginning in late 2008, the world was hit by the worst economic crisis since the Great Depression. By taking action swiftly and strongly, the World Bank Group helped its clients affected by the crisis respond effectively:

- **The World Bank Group played a historically large role in protecting the poor and laying the foundation of recovery** in an uncertain economic environment. The institution responded swiftly with unprecedented financial commitments. From July 2008—just before the full fury of the financial crisis hit—World Bank Group commitments reached \$189.1 billion by June 2011 (FY08–11) as the institution helped countries respond to, and recover from, the global downturn.
- This support was an **all-time high** and included **safety nets for the poor, infrastructure to create jobs and build a foundation for recovery, agriculture to support small farmers, and microfinance to help small and micro enterprises.**
- **International Bank for Reconstruction and Development (IBRD) support helped protect essential government spending on health, education, and social protection** in countries such as Bulgaria, El Salvador, Guatemala, Indonesia, Mexico, Panama, Peru, Poland, Serbia, Tunisia, and Ukraine.
- One of the key roles played by the Bank was to help countries cope with tightening credit markets, making funds available for investment projects that are **key to maintaining longer-term development programs.**

The World Bank Group's shareholders (donor and client alike) have expressed their appreciation for the speed, composition, and size of the response, and for the spirit of partnership with which it was undertaken. Examples of such shareholder support include:

- **The record \$49.3 billion International Development Association (IDA) replenishment** in the midst of the crisis, even as donor countries were experiencing intense budgetary pressures.
- **An increase of \$86.2 billion in IBRD capital**, the first IBRD General Capital Increase in 20 years, along with a selective capital increase in line with the "voice" modernization effort.
- Innovative **support for lending room** through shareholder agreements to release National Currency Paid-In Capital for use in IBRD lending as well as early repayment of IDA credits in order to allow redirection to countries that most needed assistance.
- Strong funding support for the **Joint International Financial Institution (IFI) Action Plan of the European Bank for Reconstruction and Development, European Investment Bank, IBRD, IFC, and the Multilateral Investment Guarantee Agency (MIGA)** for Central and Eastern Europe, which exceeded its initial commitment of €24.5 billion by making available more than €33 billion in crisis-related support for financial sectors in the Region.

Areas of Agreement

Management concurs with some of the conclusions of this second-stage evaluation:

- The importance of sustained support for countries in social protection, notably in developing robust social safety nets
- The centrality of strong country knowledge (and management would add policy dialogue on risk preparedness)
- The Bank examining options for extending lending capacity, including maturity and pricing issues
- IFC examining crisis-related investment opportunities, engaging with systemic banks, leveraging existing facilities, and refining stress test methodology.

Regarding IEG’s suggestion of a “roadmap for crisis engagement,” management’s view is broader—preparing carefully implies a swift and flexible response with a risk management framework that prepares the World Bank Group well for a wide variety of eventualities. Every crisis is different, and preparing a roadmap for the last crisis runs the risk of not being ready for the next one. What is most important is preparing carefully and responding flexibly—helping our clients to be better prepared for crises, with a granularity that takes into account the origins of the crisis and individual country situations, and working with shareholders and the Board on World Bank Group response preparedness. As noted below, that work is under way.

Areas of Comment

Management has serious reservations with the underlying analysis and methodology of this evaluation, in particular IEG’s analysis and assessment on (i) the allocation of World Bank Group support; (ii) Bank financial management; (iii) sectoral support in three areas—financial, fiscal, and social protection; and (iv) IFC and MIGA response. Management comments will be discussed in detail in the next section. The final section provides management’s views on the role of the World Bank Group going forward in supporting countries in preparing for and responding to future crises.

World Bank Management Comments

The Allocation of World Bank Support

The finding that “the allocation of the financial response has low correlation with the severity of crisis impact” (IEG 2010, p. xi) is one that management does not agree with. IEG itself goes to some length in its technical appendix¹ to heavily qualify that finding. Management disputes IEG’s assertion of low correlation with severity of crisis impact

for the following reasons: (i) The allocation of Bank support responded to client demand, based on need and consistent with longer-term poverty reduction and growth goals; (ii) ex post analysis assumes knowledge, in the throes of crisis, of which countries would be most severely impacted, and lacks a credible counterfactual; (iii) IEG does not sufficiently acknowledge the general context in which support was provided; (iv) insufficient appreciation of the need to address financial market closures; (v) role in mobilizing support; and (vi) the difference between IBRD and IDA allocations.

World Bank’s role at a time of crisis. IEG does not sufficiently recognize the totality of the response, not only in protecting the vulnerable but also World Bank Group support for laying the foundation for a robust recovery from the worst economic crisis since the Great Depression. This response included maintaining trade and capital flows, vital infrastructure investment, and investments in other key development priorities, including education quality, throughout the crisis. IEG findings are mainly driven by its correlation analysis, which narrowly focuses on their measure of ex post crisis impact versus Bank lending. The selection of the variables to construct the crisis impact index is not appropriate for assessing the response of a development bank. Even during a time of crisis, the Bank’s objective has been to promote and sustain medium-term development, taking into account a wide range of factors. These factors include helping the most stressed countries; filling financing gaps; being part of a coordinated approach among IFIs; dealing with country demand and capacity; and heading off systemic effects that could have come from the collapse of globally and regionally important borrowers. Therefore, linking allocations to a set of somewhat arbitrary ex post macro-financial stress indicators ignores these important factors driving the Bank’s support to countries.

Lack of credible counterfactual. IEG’s ex post analysis of country allocations is problematic, notably because it does not take into account what might have happened to poverty and growth without that support; the evaluation lacks a credible counterfactual against which to judge World Bank Group actions, as recognized by IEG.² The Bank, together with IFC and MIGA, contributed to an overall worldwide response that helped limit the impact of the crisis, especially among countries that went into the crisis with relatively strong macroeconomic conditions. The worldwide confidence-building factor is difficult to include in the kind of analysis that IEG uses.

General context. IEG does not sufficiently acknowledge the general context in which World Bank Group support

was provided. Nearly all developing countries were affected to some considerable degree, given that the crisis originated in developed countries and the multiplicity of channels through which risks were transmitted—and ex ante that effect was, as acknowledged by IEG (p. xi of the full report), not known. In these circumstances, a broad-based response was appropriate to the broad-based nature of the crisis, and sharp differentiation in terms of the levels of incremental lending by the world's leading development bank would not be expected, desirable, or justified. Actual allocations of IBRD commitments were responsive to overall requests from client countries. As the crisis unfolded, country allocations themselves were heavily driven by demand. The Bank was able to meet this demand because of IBRD's strong capital position going into the crisis. When actual demand exceeded projected demand at the individual country level, reallocation requests were encouraged and assessed at the corporate level. As the IEG report itself affirms, during FY09 and FY10 a "relatively large number of reallocation requests" were approved and among these, 78 percent of the beneficiaries were "countries below investment grade with limited market access."

Financial market closures. Elements such as international financial market closures are not given sufficient weight. Even some of the strongest performers and systemically or regionally important countries were threatened with drastic potential consequences when international financial markets closed to them early in the crisis, with no indications as to the duration of these closures. The Bank worked with partners to provide swift support to restore confidence and staunch the possibility of a severe economic downturn in these countries, which would also have had a negative impact in countries economically connected to those countries of regional importance.

Leadership role in mobilizing support. The IEG report does not consider the Bank's leadership role in many cases in mobilizing international support, whatever the size of Bank lending relative to others. A good example is Mongolia, where the Bank played a key role in coordinating international support efforts to a country hit hard by the crisis.

IBRD versus IDA allocations. IBRD and IDA have very different financing frameworks—one market oriented with more scope for responding to demand and one providing concessional assistance that is always in excess demand. They, of course, followed different country allocation systems. During the crisis, IBRD allocated access to its resources systematically on a Bank-wide basis, meet-

ing where possible country demand, balanced with need, cross-country equity, and development effectiveness considerations. IDA, of course, has its Board-approved Performance-Based Allocation System and has less flexibility than the IBRD in re-allocating support. IDA accounted for more than one-third of total IBRD/IDA disbursements in FY09–10 and was a major factor in overall IBRD/IDA country allocations—much higher than the average share for concessional windows in other multilateral development banks. However, even within that framework, IDA provided increased flexibility through its IDA Financial Crisis Response Fast-Track Facility, endorsed by the Board in December 2008, and additional assistance through the Crisis Response Window approved by the Board in December 2009, only mentioned in passing by IEG. Through those facilities, IDA was able to better support those most affected and most in need. Sometimes those IDA countries that were most affected were not those most in need, an element that the IEG methodology does not pick up.

Strong differentiation not to be expected. In summary, the Bank's lending allocation decisions reflected a broad range of carefully considered factors and should not have been expected to have a strong differentiation in terms of incremental lending in favor of countries that the report classifies, ex post, as most affected by the crisis. IEG hints at Bank risk aversion as an issue, but management sees no evidence in IEG's evaluation to support that contention.

IBRD Financial Management

Management welcomes IEG's affirmation that the prudent financial policies and timely interest rate risk management strategies deployed by the IBRD prior to the crisis proved to be effective in protecting IBRD's financial capacity from the impact of the crisis on financial markets, in particular the record low market interest rates. However, the report uses hindsight to evaluate shareholder decisions taken (on pricing, IDA transfers and calibration of the post-crisis lending capacity) in an environment of high uncertainty. In doing so, the report fails to appreciate that there was an informed and deliberate decision to use existing headroom to respond to the crisis, and that shareholders repeatedly and intensively discussed lending capacity and came to an agreement on a balanced package of measures (including the General Capital Increase and loan pricing) to provide for a specified amount of post-crisis lending capacity. Indeed, the report misses the fact that with contributions from developing as well as developed countries, the 2010 capital package was viewed as a historic and resounding success.

Pricing. With regard to IBRD pricing, on which IEG comments extensively, the report suggests that pricing should have increased by more than it did during the crisis in order to ensure greater headroom. (The largest component of the price of a Bank loan is, of course, set by the market—through Bank borrowing costs. The Bank’s Board sets the spread.) Management and the Board did look at a broad range of options to address the Bank’s ability to respond to the crisis and preserve lending capacity thereafter. Following extensive discussions over the course of a year as the crisis unfolded, shareholders reached a broad consensus to increase IBRD’s financial capacity with a set of measures that included changes to pricing as well as introduction of premiums for longer-maturity loans, but also included agreement on IDA transfers, release of national currency-paid-in capital, as well as a general capital increase and a selective capital increase. This balanced package involved contributions from developing and developed countries and emphasized mutual responsibility and shared interests. The level of pricing cannot simply be analyzed without being placed in the broader context of the shareholder consensus forged around the Bank capital increase.

Headroom. With respect to the report’s main concern on financial capacity, a purported lack of headroom to respond strongly to yet another crisis, the report implies that the decline in the equity-to-loans ratio from pre-crisis levels of 37 percent to the current 28 percent, and the resulting financial capacity, is an unintended outcome of the Bank’s strong response to the 2008 crisis. In fact, the 37 percent equity-to-loans ratio prior to the crisis merely reflects significant unutilized lending capacity that shareholders consciously chose to utilize for crisis response, and the current level of 28 percent equity-to-loans ratio continues to represent a very strong level of capital adequacy and simply reflects a higher utilization of the IBRD’s capacity in implementing the shareholders’ decision. The IEG evaluation also fails to take into account that the Bank’s robust shareholder support has been strengthened as a direct result of its leading role in the international crisis response efforts and positions it well to continue playing a central role in the evolving global financial architecture. Indeed, a less robust initial crisis response by the Bank to keep its powder dry for the “next crisis”—and avoid criticisms like IEG’s—could, besides possibly worsening the crisis impact on the poor, well have diluted the Bank’s shareholder support.

As well as making the conscious decision to use the available headroom at the beginning of the crisis, sharehold-

ers similarly discussed and came to agreement upon how much headroom to target post-crisis as well as how to generate the additional capital required to meet this target. The IEG report misses the full context in which these decisions were taken, including key shareholders’ own fiscal constraints as well as shareholder concerns that sizing a capital package to provide buffers for potential future crises would risk wasting scarce taxpayer resources in the event that further crises did not materialize. The resulting package was therefore sized to both allow for response to the crisis that began in 2008 and support a return to pre-crisis lending levels thereafter. Management believes that the Board, working with management, made well-balanced choices and appropriate adjustments as the crisis unfolded. It is also important to note that there was a clear recognition that in the event of a further capital shortfall in the future, additional measures to shore up the Bank’s capacity would be considered when needed.

Management also notes the many references to the negative impact on the IBRD and IFC of their commitments to transfer a share of their net income to IDA, without a corresponding analysis of the negative impact on IDA client countries of failing to fulfill these commitments.

Sectoral Support and Instruments

The IEG evaluation looks at the Bank’s support for the financial sector, fiscal management, and social protection. As always, there is room to do better and, while more will be known when further outcome data becomes available for ex post evaluation, management is examining all of IEG’s observations on sectoral support. Management would make only a few points.

Financial sector support. Management has a different view from IEG on the value of Bank support for access to financial services during the crisis. Access helps mitigate shocks and is a relevant crisis response, allowing households to tap formal savings, remittances, and credit. Moreover, better access helps reduce the potential impact of future shocks.

Fiscal management and Development Policy Operations. With regard to the suggestion of missed opportunities to introduce policy reforms, the report seems to suggest putting the Bank into the role of second-guessing country authorities and of imposing specific reforms on unwilling countries or of “buying reforms.” IEG’s message here is inconsistent with past IEG evaluations on conditionality and not consistent with worldwide work on aid effectiveness.

IEG has been historically in the lead in emphasizing (i) the overriding priority of country ownership and (ii) the lessons of experience on not overloading Development Policy Operation conditionality.³ The maintenance of an appropriate macroeconomic framework is a requirement for Development Policy Operations, but mandatory macroeconomic conditionality is not imposed by the Bank, even or especially in a crisis. Moreover, countries have ongoing development priorities in infrastructure, education, and the environment, and tradeoffs between fiscal adjustment and the potential consequences on long-term growth need to be carefully managed during a crisis. Furthermore, the report provides only anecdotal evidence and ignores the country dialogue process on reforms that often embedded the crisis activities in broader reform support. Finally, the report does not recognize that the crisis originated outside the developing world and many developing countries entered the crisis with strong policy frameworks and a robust ongoing reform process in place.

Fiscal space and fiscal positions. The report implies that countries should have undertaken pro-cyclical policies in the midst of the crisis, which could potentially make the outcome worse. Also, IEG measures fiscal sustainability by looking at data and projections for FY10—during the crisis for many countries and soon after the crisis for other countries—which is too early to be a meaningful point of departure for measuring long-term fiscal sustainability and also inappropriate, comparing ex ante with ex post. The report itself notes that, in any case, the association of a country's overall fiscal outcomes to the Bank's fiscal management-focused Development Policy Operations is subject to strong caveats and not amenable to evaluation.

Social protection. With regard to social protection, the Bank accepts IEG's analysis that many countries were unprepared and that readiness of country social protection systems was a constraint. Going forward, the Bank is working more systematically to support client countries on developing these systems as part of its overall crisis-preparedness support, as underlined in the new Social Protection and Labor Strategy being finalized. However, Bank management strongly believes that helping countries target the poor during the crisis was a practical and effective response (IEG 2011b).

IFC Management Comments

Management appreciates the report's recognition that IFC has been strategic in its response to the crisis. IFC's

crisis response encompasses the following: (i) protecting IFC's portfolio projects; (ii) restoring liquidity in the financial markets; (iii) strengthening IFC's balance sheet; (iv) regional initiatives (especially in Eastern Europe); (v) advisory services shift to risk management and non-performing loans resolution; (vi) continued focus on IDA countries; (vii) greater focus on equity; (viii) special initiatives with other organizations on banking, trade, microfinance, infrastructure, and distressed assets; and (ix) crisis-driven organizational changes. IFC's crisis response reflects lessons from previous crises, including those confirmed in IEG evaluations.

IFC continues to take stock of experiences and lessons from past crises in enhancing its readiness for a potential crisis. This report provides useful insights on IFC's 2008–09 crisis response and will inform future IFC crisis response activities.

IFC has the following comments on the key issues highlighted in the IEG report:

a. Taking more risks in a crisis by increasing investment commitments

- IFC agrees with the report's suggestion to seek more opportunities in a crisis, within prudent risk management parameters and taking account of available resources. Preparing for a possible crisis is one of three key near-term IFC tasks, and it is closely looking at the potential increased opportunities for investment that might occur. IFC is also examining its risk position and the potential for added investments. However, in addition to the limitations of IFC's financial capacity, as IEG recognizes, IFC's ability to take on opportunities is constrained by the demand for IFC interventions by its private sector clients. IFC can only invest in projects where there are capable and willing sponsors with developmentally and financially viable projects, and where IFC has good additionality. Within these constraints, IFC will look for opportunities to achieve greater development impact, especially in projects where IFC additionality is more crucial in a crisis. It is important to note that during the 2008–09 crisis, IFC took more opportunities relative to the market decline. Commercial flows to emerging markets declined faster compared with IFC's new investment commitments in 2009. Net private inflows to developing countries declined by 50 percent from their pre-crisis peak in 2007

of \$1.1 trillion to \$522 billion in 2009. In contrast, IFC's investment commitments for its own account held up well, declining only slightly, by 7 percent, from its pre-crisis peak of \$11.40 billion in FY08 to \$10.55 billion in FY09. In FY10, IFC's commitments already exceeded its pre-crisis peak, whereas net private inflows to developing countries had not recovered to pre-crisis levels.

- Regarding the level of risk IFC undertook in the recent crisis, while it is noted that the report states that IFC's risk profile did not change during the crisis based on the risk weights used to determine economic capital, the report also states that the aggregate weighted Credit Risk Rating suggests a spike in the risk profile of IFC's portfolio at the outset of the crisis. IFC believes the latter is more indicative of the change in risk position of its portfolio that occurred during the crisis.

b. Refining IFC's stress test methodology

- The report suggests that IFC refine its stress-testing methodology. IFC believes that the report's assessment of its stress testing—that IFC relied on a simplistic, historical-based approach, leading to an overestimate of losses—does not accurately reflect the role and impact of stress-testing at IFC during the period leading up to and during the crisis. IFC's stress-testing approach incorporates a range of bottom-up and top-down analyses from across the Corporation, based upon the current portfolio. Analyses of different business lines are aggregated to arrive at an overall picture of IFC's financial position. As the leading private sector emerging-market investor, IFC does benefit from long experience in emerging markets, but the IEG report overstates our reliance on historical macroeconomic data in our stress-testing analysis leading up to and during the crisis. When assessing the overall stress-testing methodology, it is important to look at IFC's overall approach rather than one department-specific example.
- IFC's equity and liquid asset portfolios were, in fact, considerably impacted by the crisis. The expected deterioration in the emerging market credit portfolio did not materialize, but given the global scale and severity of the crisis, it was not unreasonable to conclude that there would likely be a significant spill-over into the loan portfolio. As to the IEG report's conclusion that a granular analysis of

IFC's portfolio would have resulted in a lower estimate of portfolio deterioration, that remains very uncertain.

- In terms of the impact of IFC's stress-testing results, it should be noted that the \$5 billion potential loss mentioned in the IEG report was one isolated analysis and was never adopted as the Corporation's view. Other stress tests had significantly different estimates. IFC's stress tests of its capital adequacy, as presented to the Board, concluded that IFC was adequately capitalized to withstand the crisis, although the Corporation could face constraints in maintaining historic growth rates and designations over the longer-term while maintaining its AAA rating.
- In general, the recent financial crisis has demonstrated the need for financial institutions, including IFC, to continue to enhance their stress-testing frameworks. IFC refined its stress testing approach following the crisis—for example, with the implementation of a comprehensive program of country and sector reviews looking at the granular portfolio under a range of stress scenarios. As a normal part of IFC's effort to continually improve risk management, it intends to continue to enhance its stress-testing framework going forward.

c. Being systemic in a crisis

- The report indicates that IFC was systemic in its financial sector crisis response in eight banks covering at least six countries (out of about 100 countries in which IFC invests in a typical year) and that the Bank Recapitalization Fund (or Cap Fund) crisis response supported systemic banks in four out of the six initial investments.⁴ This suggests that IFC could have systemic impacts in some countries where IFC intervention is needed in major companies.
- While this evaluation did not assess IFC's systemic impact beyond investments in the financial sector, IEG's "Lessons from World Bank Group Responses to Past Crisis: Update on an Ongoing Evaluation" (IEG *Evaluation Brief 8*, 2009) shows that IFC has had systemic impact in large, key flagship companies such as banks, industrials, or infrastructure companies. According to that report, visible restructurings of major industrial clients, first recapitalizations of major banks, and large loan syndications have had strong demonstration effects and positive impacts on market confidence (Korea,

1997; Russia, 1998; Turkey, 2001). This report also states that IFC's long-term orientation track record as a reputable and successful investor in emerging markets and ability to support key restructurings through honest-broker leadership in steering committees of creditors and bondholders can signal turnaround for the entire sector and economy (as in the case of a major bank in Argentina).

- Going forward, IFC will seek to have systemic impacts in its interventions to the extent possible, considering the country size, opportunities for systemic impact, and opportunities for additionality.

d. Relying on existing platforms in a crisis

- IFC agrees with the report's suggestion that some of the newly established platforms should be institutionalized as "permanent contingent arrangements" that can be quickly reactivated in a crisis. However, this does not limit IFC's ability to develop new platforms should existing platforms prove not directly relevant to the issues at hand. For example, in response to the Arab Spring, IFC has recently received Board approval for the establishment of a Middle East and North Africa Fund, which is expected to help restore investor confidence and attract capital back to the Region when many investors are in a "wait and see" mode. Additionally, three specific initiatives currently under preparation in the Middle East and North Africa by IFC in partnership with other IFIs (including the World Bank), include: (i) the Middle East and North Africa Small and Medium Enterprise Facility and the Micro, Small and Medium Enterprise Technical Assistance Facility; (ii) the education for employment initiative; and (iii) the Arab Financing Facility for Infrastructure and a complementary technical assistance facility. In establishing these initiatives, IFC has taken account of the lessons of experience from past crisis responses, including the reality that creating too many new initiatives with complex structures and with external partners could take time. Lessons have also shown that when partnering with like-minded and motivated multilateral development banks, the development impact could be significant due to increased synergies and complementary interventions.

Lastly, IFC appreciates IEG's engagement with management in undertaking this evaluation. IEG's sharing and discussion of the report's initial draft with management

has allowed IFC to consider IEG's early findings in its strategy process.

MIGA Management Comments

Management notes IEG's key findings with respect to MIGA:

- MIGA's overall response was strongly strategically relevant to the crisis, but deficient in the volume of guarantees underwritten, in particular relative to MIGA's risk-bearing capacity and as compared with other PRI providers.
- MIGA's crisis response was geographically limited in its ambition (that is, to the Europe and Central Asia Region), indicating a weak business development function.
- The analysis found little cooperation at the operational level of MIGA with either the Bank or IFC, but considerable coordination in the formulation of MIGA's crisis strategy.

Management observes that it should be emphasized from the start that MIGA is a demand-driven institution and the volume of guarantees issued in support of financial institutions in response to the global financial crisis was a direct result of demand for such coverage.

In early 2009, at the start of the Joint IFI Action Plan, MIGA, together with IFC, the European Investment Bank, and the European Bank for Reconstruction and Development, met with 17 systemically important internationally active banking groups based in Europe, most of which were already established clients of one or more of the IFIs. The purpose of the meetings was to assess the needs of the banking groups in each of the products offered by the IFIs, including MIGA guarantees. Following the initial meetings, MIGA received initial expressions of demand for coverage of about \$1 billion from banks outside of MIGA's key clients. Several requests were for coverage of investments in the subsidiaries outside of Europe and Central Asia. MIGA reported these numbers to the Board in one of its regular updates on the crisis response. This speaks to the business development done during MIGA's crisis response initiative.

IFC-MIGA's cooperation during the joint IFI needs assessment was the first example of structured IFC-MIGA cooperation and has led to the signing of a joint business development agreement between the two institutions. Therefore, the statement of little cooperation at the opera-

tional level is incorrect. There was continuous cooperation and coordination, but each institution focused on its products to achieve maximum complementarity.

After a significant amount of discussion with the parent banks during 2009–11, most of their demand—except for the insured transactions—was withdrawn. The key reason was the availability of attractively priced IFI funding, which was more beneficial to the parent banks than MIGA guarantees, given the liquidity concerns.

Throughout the crisis, there was no material demand for MIGA guarantees outside of Europe and Central Asia. This was consistent with macroeconomic trends and foreign direct investment patterns at the time: in other Regions, the crisis did not result in massive injections of equity or funding into financial subsidiaries that could have required MIGA guarantees. This lack of crisis response outside of Europe and Central Asia was a function of (low) demand rather than weak business development in the financial sector.

Projects in other sectors, for example, infrastructure, were in the meantime put on hold. Since MIGA's coverage requires an underlying investment in the form of equity or loan, when such investments are not forthcoming because of liquidity shortages or credit risk concerns, MIGA has no role to play, as, unlike IFC, it cannot provide liquidity or insure credit risk.

Going Forward

IEG's observations are useful in moving forward on a key World Bank Group priority—preparing for possible future crises. The World Bank Group Post Crisis Directions document (World Bank 2010) sets out managing risks and anticipating potential shocks and new crises as one of five key priorities. In doing so, the World Bank Group recognized that the world was going to be a more uncertain place. Management noted in its analysis that “More often than not, it is developing countries—especially low-income countries—that are least prepared and most vulnerable to emerging financial, environmental, epidemiological, and other threats.”

Social Safety Nets

IEG's observations on crisis-related safety net work going forward closely match management's own strategic directions for social protection and labor more broadly, as represented in the new Social Protection and Labor strategy for 2012–22 being finalized. The proposed 2012–22 strat-

egy emphasizes continuing the move toward supporting countries in building scalable and flexible social protection (including social safety nets) systems that can be used to address both shocks and chronic poverty. The Bank has been working more vigorously in this area since start of the food, fuel, and finance crises. The Rapid Social Response Multi Donor and Catalytic Trust Funds and Japanese Social Development Fund Emergency Window (with contributions from Japan, Russia, Norway, and the United Kingdom) allowed a significant increase in capacity building and analytic and advisory activities in low-income countries, especially in low-income countries with which the Bank had not previously had dialogue on social safety nets (19 new countries actively engaged on safety nets). Management expects the Bank to sustain continuous engagement through a country-specific and time-varying blend of lending and nonlending support, including impact evaluation and South-South learning.

To improve crisis monitoring and address data and knowledge gaps identified by the IEG report (notably crisis resilience of social safety nets and better targeting of those affected by the crisis), several efforts are under way. The Bank has already developed and now is in the process of applying new Country Policy and Institutional Assessment measures and guidelines for benchmarking social protection, including a new measure for social protection systems. The resulting information is now part of the regular process of monitoring progress toward crisis-responsive system building. In FY12 the Bank (i) is producing an ADePT module to simulate and analyze the impact of crises on poverty and labor market outcomes; (ii) will begin benchmarking performance of social protection programs, (iii) will produce an inventory of social safety nets and assess their crisis readiness around the world; and (iv) will develop and disseminate a best practice note based on country experience with active labor market programs during the recent crisis.

Country Knowledge, Dialogue, and Support on Crisis Resilience

Social protection is just one example of the ongoing World Bank Group work to improve country knowledge and enhance its dialogue with client countries on crisis readiness, to help countries reduce their vulnerability to crises and be better prepared to respond. For example, on the Bank side, the Development Economics Vice Presidency has provided guidance to country teams with regard to dialogue on economic and financial crises and Regions, notably Europe and Central Asia, have detailed crisis preparedness work under way.

In addition, recent Development Policy Operations have supported policies and institutional reforms aimed at increasing resilience to a variety of possible crises. In Mexico, for example, the climate change area has become one of the major organizing themes for Bank assistance through Development Policy Operations and figures prominently in the country dialogue and in the Country Partnership Strategy. In Indonesia, environment is one of the core areas of engagement of the 2009–12 Country Partnership Strategy and a programmatic series of four Development Policy Operations with a focus on climate change is supporting the government's efforts at strengthening the institutions and cross-cutting policy framework needed for a successful climate change response. In Tunisia, an employment Development Policy Operation is supporting government reform efforts to reduce constraints associated with job creation, and in Tonga a Development Policy Operation series is focusing on energy sector reform to pave the way for private

sector development and spur growth and poverty reduction, reducing crisis vulnerability.

Further Work Under Way

In the current, uncertain world economic environment, the World Bank Group is preparing to be as ready as possible for all eventualities. Thanks to Board action and support from donors, IDA is better prepared than in 2008, with its Crisis Response Window in place (and already delivering in the Horn of Africa). More generally, management and the Board are already engaging on how best to collectively position the World Bank Group to respond in the most effective manner in the event of another economic crisis, notably considering options for extending lending capacity, including maturity and other pricing issues, and IFC is examining crisis-related investment opportunities, engaging with systemic banks, leveraging existing facilities, and refining stress test methodology.

Chairperson's Summary: Committee on Development Effectiveness

The Committee on Development Effectiveness (CODE) considered the Independent Evaluation Group (IEG) report entitled *The World Bank Group's Response to the Global Economic Crisis: Phase II* and the draft World Bank Group Management Comments. The meeting was a continuation of the interaction started on September 27, 2010, when CODE discussed the *World Bank Group's Response to the Global Economic Crisis: Phase I*.

Summary

The Committee welcomed the IEG report and the opportunity to discuss how the World Bank Group could improve an already good crisis response in order to be more responsive in the future. Members highlighted the importance of drawing lessons from past experience, continuing to properly position the World Bank Group's response within the development context and make better informed decisions during future crises. Members underlined that, considering the unprecedented severity and the uncertainties of the global economic crisis, the World Bank Group responded well, with the appropriate speed, size, and composition of lending, in line with the requests by the international community and in the spirit of partnership and coordination with other stakeholders, taking into account the principles of effective harmonization and the country priorities. The Committee also emphasized the difficulties in predicting the impact of the crisis and reconciling it with the need to respond rapidly. However, members acknowledged that there is room to enhance the World Bank Group future crisis preparedness, supporting the establishment of a roadmap for crisis response, and increasing the use of innovative financial instruments—including in International Development Association countries. Members also acknowledged the need to strengthen crisis response, including building better social protection systems, and to bolster country capacity and knowledge.

IEG underlined that the report builds on and reaffirms many of the findings of the Phase I report. This report

addresses questions raised in the discussion of Phase I regarding lending in the financial, fiscal, and social protection areas, and adequacy of lending instruments. Its findings indicate that the World Bank Group capacity to respond to crises could be further improved by developing a strategic roadmap that explicitly acknowledges the diversity of clients' needs and the role of other international financial institutions, and that includes a review of financial instruments to enable more effective crisis response and help preserve headroom. IEG recognized that measures in this direction are already being undertaken by the World Bank Group—including the consideration of new International Bank for Reconstruction and Development instruments, the ongoing refinement of the International Finance Corporation's stress-test methodology as part of its continued efforts to enhance risk management and the institutionalization of its successful initiatives to respond to crises, and the Multilateral Investment Guarantee Agency's ongoing expansion and diversification of its business plan.

Management underlined the unprecedented challenge as the crisis unfolded. The response was appropriate to the broadly based nature of the crisis and possible spillover effects from systemic countries; reflected country demand and capacity and the quality of policies and institutions; and it was consistent with the World Bank Group mission and ensured equitable treatment across countries. Management also pointed out that many countries entered the crisis in a good fiscal condition, with strong antipoverty strategies and policy frameworks, and sought support to sustain expenditures and vital infrastructure in priorities relevant for sustainable development, while protecting the poor and vulnerable from an external shock. Shareholders (donor and client alike) appreciated the speed, the size, and the composition of the response and the spirit of partnership with which it was undertaken. Shareholders and the Board set the parameters of and guide management's response. That joint effort helped restore confidence in developing countries, paving the way for developing country growth to return to pre-crisis levels, and was crucial in

restoring the World Bank's financial capacity in the post-crisis period. Management appreciated the opportunity to engage further with the Board to improve the World Bank Group capacity to respond to crises, and several initiatives

are under way related to crisis response and preparedness going forward.

Anna Brandt

1

Introduction

When the global economic and financial crisis of 2008 broke out, the World Bank Group recognized that, coming in the wake of the food and fuel price shocks, the crisis could significantly set back the fight against poverty. As early as November 2008, the Bank prepared suggestions for a multipronged response, coordinated with partners, going beyond immediate liquidity financing to prevent escalation of the crisis and to ensure a sound foundation for the recovery (World Bank 2008b). Key priorities for action were protecting the poorest and most vulnerable in developing countries; stabilizing financial and private sectors; managing fiscal challenges; and securing long-term development expenditures.

At the same time, the World Bank Group emphasized its readiness to considerably expand its financial support to client countries in response to the global financial crisis. These goals were broadly reaffirmed to the Bank's Board in March 2009, when the Bank further emphasized long-term goals, including the need to maintain infrastructure programs and sustain the potential for private sector-led growth and development and complementing an overarching focus on macroeconomic stability. The Bank affirmed its ability to triple International Bank for Reconstruction and Development (IBRD) lending in FY09 and its potential to reach lending volumes of \$100 billion over the next three years.

New financing provided by the World Bank and the International Finance Corporation (IFC) combined over the two-year period FY09–10 spiked to \$63.7 billion per year, compared with an average of \$30.4 billion per year over 2005–07. This largely reflected an increase in World Bank outlays (from \$24.5 billion per year over the FY05–07 period to \$53.9 billion per year over the FY09–10 period) and to a lesser extent an increase in IFC's new commitments (from an average of \$5.9 billion per year to \$9.8 billion per year over the same two periods). Much of the response was focused on middle-income countries: combined IBRD and IFC financing to IBRD countries increased from a pre-crisis annual average of \$18.7 billion to an annual average of \$45.4 billion during the two-year period of the crisis response; the volume of International Development Association (IDA)

financing rose more modestly, from \$10.2 billion to \$15.7 billion over the same period, including some disbursements from IDA's Crisis Response Window, which was not, however, established until December 2009.¹ For activities of the Multilateral Investment Guarantee Agency (MIGA), the volume of guarantees issued in IBRD countries averaged \$1.3 billion in FY09, compared with a rolling average of \$1.2 billion during the FY06–10 period.

In close parallel, the Independent Evaluation Group (IEG) embarked on a real-time evaluation of the Bank Group's role in providing crisis support. Its first major report under this evaluation was presented to the Bank's Board in October 2010. Because the crisis was ongoing, the Phase I report focused largely on the Bank's readiness and swiftness of response; the design at entry of the Bank's largest crisis response operations, analytical response, and overall operational efficiency; and the distribution of interventions among regions and sectors. At both the Bank and IFC, the Phase I evaluation described new initiatives launched to address the crisis and described MIGA's response in terms of its contribution to the global Financial Sector Initiative.

Evaluation Scope

Bank client countries were significantly affected by the crisis. Average gross domestic product (GDP) growth declined from 6 percent in 2005–07 to 1 percent in 2009; declines in the hardest hit regions of Europe and Central Asia and Latin

America and the Caribbean were from 7 percent in 2005–07 to –2 percent in 2009. Private credit growth went from 9 percent in 2007 to 3 percent in 2009. The acute phase of the crisis has now passed, for most countries (figure 1.1), permitting a more detailed—and of necessity more selective—analysis of the crisis response, in this Phase II evaluation. The analysis of the Bank Group’s crisis response assumes increased importance in the prevailing uncertainty of today and as some aspects of the recovery become prolonged, particularly the fiscal repercussions.

The present evaluation emphasizes the multidimensional nature of the crisis that affected countries through channels ranging from financial sector stress to trade, capital flows, fiscal positions, employment, and income (table 1.1 and appendix A, table A.1). These multiple measures of stress are only partially correlated. Countries such as Armenia, for example, faced a sharp GDP decline but little immediate distress in their banking systems or financial markets. Poland and Ghana faced exchange rate pressures, and Ghana experienced fiscal stress but little financial sector stress. By contrast, countries such as Ukraine faced stress in multiple areas of the economy.

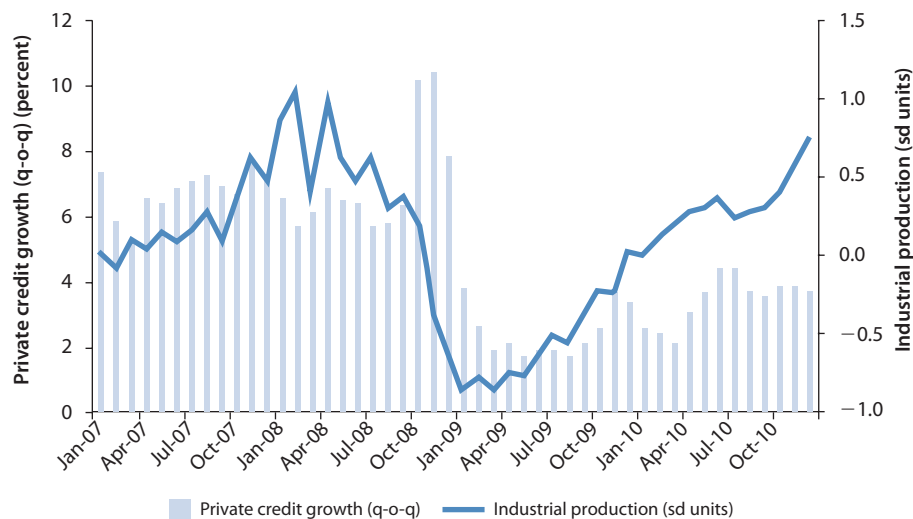
The first section of this evaluation situates the World Bank Group response in the broader context of other international financial institutions (IFIs) and multilateral development banks (MDBs) and undertakes an analysis of the allocation of the Bank’s financial resources to client countries relative to a range of measures of stress. It also reviews the Bank’s instruments from the perspective of their adaptation to crisis

needs, relative to other IFIs and MDBs, and the implications for the Bank’s financial position.

The following sections of the evaluation include reviews of the nature of the World Bank Group response in three key areas of intervention during the crisis: financial sector interventions at the Bank Group, in terms of both stabilization and long-term development; public finance, in terms of expenditure allocation during the crisis as well as long-term fiscal sustainability; and social protection for the poor and vulnerable. A first reason for the selection of these three sectors is their role as essential elements of the Bank’s strategic crisis response; a second is their large role in the Bank Group’s *incremental* response, in terms of financial commitments (table 1.2). The biggest *increases* in lending activity in the crisis period, exceeding 150 percent, were for the Poverty Reduction and Economic Management, Financial and Private Sector Development (FPD), and Human Development sector board clusters. Yet *in absolute terms*, the sector board clusters infrastructure and economic policy (Poverty Reduction and Economic Management sector) contributed the majority (63.4 percent) of crisis period lending commitments; lending for infrastructure accounted for more than a third of the total.

Although significant in absolute size and mentioned as an essential pillar of the Bank’s crisis response, as the Bank announced in March 2009, crisis support for infrastructure is not assessed in depth in this Phase II evaluation. One reason is that, relative to other sectors covered, the majority of infrastructure loans processed during the

FIGURE 1.1 Crisis and Recovery: World Bank Group Clients, January 2007–December 2010



Sources: World Bank Global Economic Monitor and International Monetary Fund International Financial Statistics.

Note: Quarter-on-quarter changes for credit and demeaned monthly series for industrial production volumes for all eligible Bank borrowers for which data were available.

TABLE 1.1 Bank Group Client Countries during the Global Crisis, Ranked by Stress Indicators

	Exchange market pressure			Financial market stress		Credit crunch		Banking sector stress		Social protection		Financing needs	
	Decline in GDP growth ^a	Foreign exchange rate ^b	Foreign reserves ^b	Stock market ^b	EMBI spread ^b	Private credit growth rate ^c	Deposit growth rate ^c	Liquidity support ^c	Private consumption growth rate ^d	Unemployment rate ^d	Fiscal deficit as % of GDP ^e	Public debt as % of GDP ^e	
1	Armenia	Ukraine	Pakistan	Ukraine	Ukraine	Montenegro	Montenegro	Ukraine	Latvia	Latvia	Maldives	Guinea-Bissau	
2	Ukraine	Ghana	Sri Lanka	Bulgaria	Pakistan	Kazakhstan	Kazakhstan	Nigeria	Ukraine	Mongolia	Ghana	Lebanon	
3	Latvia	Poland	Sudan	Serbia	Bulgaria	Latvia	Latvia	Belarus	Papua New Guinea	Turkey	Lebanon	Iraq	
4	Moldova	Zambia	Chad	Romania	Dominican Rep.	Georgia	Latvia	Azerbaijan	St. Lucia	Georgia	Egypt, Arab Rep. of	Jamaica	
5	Georgia	South Africa	Belarus	Bosnia and Herzegovina	South Africa	Maldives	Mongolia	Armenia	Tajikistan	Hungary	Sri Lanka	Grenada	
6	Angola	Lesotho	Mauritania	Vietnam	Vietnam	Mongolia	Ukraine	Mongolia	Guinea	El Salvador	Barbados	Mauritania	
7	Romania	Chile	Mongolia	Kazakhstan	Hungary	Albania	Kazakhstan	Latvia	Romania	Costa Rica	Grenada	Barbados	
8	Grenada	Romania	Latvia	Croatia	Argentina	Azerbaijan	Azerbaijan	Turkey	Zambia	Ukraine	Pakistan	Guinea	
9	Montenegro	Turkey	Vietnam	Latvia	Egypt, Arab Rep. of	Romania	Botswana	Mexico	Mauritania	Jamaica	Tajikistan	Egypt, Arab Rep. of	
10	Bulgaria	Guinea	Macedonia	Peru	Serbia	Nicaragua	Serbia	Kazakhstan	Jamaica	Mexico	Yemen, Rep. of	Nicaragua	
<i>n</i>	91	91	85	39	30	86	86	69	94	53	92	85	
<i>N</i>	94	94	94	94	94	94	94	94	94	94	94	94	

Sources: IMF; World Bank; Bloomberg; Datastream; UNSD.

Note: Countries with World Bank commitments of less than \$10 million in FY09–10 and GDP per capita less than \$400 in 2007 are excluded. Ninety-four of 117 World Bank borrowers in FY09–10 had commitments of more than \$10 million and GDP per capita greater than \$400 in 2007. *n* is the number of countries for which data are available. Monthly data are used for foreign exchange rate, foreign reserves, private credit, deposits, liquidity support, stock market, and EMBI spreads. Annual data are used for GDP, private consumption, unemployment, and fiscal deficit.

a. Pre-crisis forecast versus actual GDP growth for CY2009.

b. Pre-crisis peak/trough (January 2007–March 2008) versus crisis trough/peak (July 2008–December 2009).

c. Pre-crisis average (January 2005–December 2007) versus crisis average (July 2008–December 2009).

d. Pre-crisis average (CY2005–07) versus crisis average (CY2009).

e. Average of CY2007–08 (see chapter 5 and appendix E, section 2, for details).

TABLE 1.2 Commitments, Disbursements, and Number of Operations, by Sector Board Clusters

	Sector Board clusters ^a					Total ^b	Of which: Sector Boards		
	ESSD	FPD	HD	INF	PREM		EP	FPD	SP
Commitments (\$ billions)									
Pre-crisis (FY05–07)	3.8	2.5	2.7	9.5	5.9	24.5	2.1	2.5	1.3
Crisis (FY09–10)	6.4	6.4	7.0	19.0	15.0	53.9	9.3	4.8	4.6
Change (in %)	67	158	159	99	152	120	339	95	242
Share in FY09–10 commitments (in %)	11.9	11.8	13.0	35.3	27.8	100	17.3	11.8	8.5
Total disbursements (\$ billions)									
Pre-crisis (FY05–07)	2.2	1.8	2.5	4.7	5.6	16.7	2.1	1.8	1.5
Crisis (FY09–10)	4.2	4.8	4.9	9.5	11.4	35.1	6.7	4.8	3.6
Change (in %)	93	171	98	101	105	110	212	171	130
Share in FY09–10 disbursements (in %)	12.1	13.7	13.9	27.0	32.5	100	19.0	13.7	10.1
Number of loans (annual average)									
Pre-crisis (FY05–07)	91.3	25.0	42.7	118.0	90.0	368.0	24.3	25.0	16.0
Crisis (FY09–10)	99.0	28.5	62.5	144.0	99.5	435.0	42.0	28.5	35.5
Change (in %)	8.4	14.0	46.5	22.0	10.6	18.2	72.6	14.0	121.9
Share in FY09–10 number of loans (in %)	22.8	6.6	14.4	33.1	22.9	100	9.7	6.6	8.2

Source: World Bank data.

a. To permit an aggregation across all Bank groups, Sector Boards have been clustered as follows: Economic and Socially Sustainable Development (ESSD) includes Agriculture and Rural Development, Social Development, and Environment; Human Development (HD) includes Education and Health and Social Protection; Finance and Private Sector Development (FPD) includes FPD and Project Finance and Guarantees (although there were no operations under the latter sector board during FY05–10); Poverty Reduction and Economic Management (PREM) includes Economic Policy (EP), Poverty Reduction, Public Sector Governance, and Gender; and Infrastructure (INF) includes Information and Communications Technology, Energy and Mining, Transport, Urban Development, and Water. SP = Social Protection.

b. Exceeds the sum of the sector board clusters, as the Operations Policy and Country Services and other sector boards, whose role in operations is negligible, are not shown.

crisis period had relatively low crisis relevance, and the preparation of most loans had been initiated before the crisis. In accordance with proposals in the approach paper for this evaluation, a limited investigation of the relevance of infrastructure lending for the crisis period is provided in appendix A, section 2.

Approach, Methodology, and Evaluation Questions

IEG’s series of crisis response briefs and its Phase I evaluation paralleled the evolution of the crisis, with the intention of providing real-time feedback. Acknowledging the difficulties of fully evaluating outcomes and impacts at such an early stage, the Phase I crisis response evaluation questions focused on the Bank’s preparedness, the relevance of its overall response, quality and timeliness of implementation, and early outcomes and prospects. The Phase I evaluation concluded in the fall of 2010 and some of the limitations it faced still apply; although data on resource allocation and instruments are now known, information on results assessments of the projects covered is only partially available.

This evaluation therefore retains some of the “formative” aspects of the Phase I evaluation, although a large part is based on established information. Although formal reviews of results may not be available for many operations, in-depth country case studies, based on a standardized series of questionnaires, provide a solid basis for evaluation.

The evaluation questions addressed in this evaluation are outlined here. In some areas they parallel those in Phase I but use new data and analysis in exploring the answers. Beyond Phase I, there is an increased emphasis on results and outcomes, given the greater maturity of the Bank’s interventions, viewed from the perspective of mid-2011.

Overall Response: Resource Allocation, Instruments, and Strategy

Relevance to the Crisis

- Was the allocation of the Bank’s increased financing across clients broadly matched to the needs of clients in terms of the degree of stress they experienced? Was the focus of the response on the most affected countries and clients?

- Did the allocation of resources also take into account factors such as country demand, overall policy stance, and assistance from other bilateral and multilateral sources?
- To what extent was the resource allocation at IFC and MIGA based on country needs, recognizing also that IFC and MIGA project selection criteria require client financial soundness?
- To what extent did the Bank Group complement other IFIs and MDBs during the crisis, and were its actions consistent with its comparative advantage?
- At MIGA, was new business development, reinsurance, and/or management of outstanding guarantees reoriented to respond to the crisis?
- In its financial sector interventions, were the results sought appropriate in light of the state of the sector in question in the client country? For instance, for those countries facing a banking system crisis, did Bank interventions help stabilize domestic financial institutions and markets and prevent an acceleration of the crisis?
- In those countries where the financial systems were relatively little affected by the crisis, but where there was economic impact through other channels, did the Bank's operations help strengthen future resilience to crises by strengthening financial regulation, supervision, and financial infrastructure?

Efficacy and Efficiency

- Were the lending terms of Bank crisis response financing operations appropriate?
- To what extent did the Bank's choice of instruments, as well as their pricing and maturity, affect its future capacity to respond to crises? Has headroom been preserved to provide for possible future "spikes" in lending?
- How did IBRD lending terms compare with other IFIs and MDBs, regarding their future capacity for crisis response?
- How did the constrained capital environment at IFC affect its choice of activities to support? Were the areas of focus appropriate to the needs of the crisis?
- How did MIGA's overall volume of response compare with that of other providers of political risk insurance?
- Did World Bank Group members succeed in leveraging their resources to crisis-affected countries through partnerships with other IFIs and MDBs or with other public or private sector entities?
- In the Bank's Development Policy Operations (DPOs) with fiscal content, how appropriate were the measures relative to client countries' fiscal constraints at the onset of the crisis? For countries facing the crisis with a high public debt ratio or a large fiscal deficit, did the operation support structural reforms to strengthen the fiscal position on a sustained basis? For countries facing the crisis from a position of fiscal strength, did the operation support a well-designed program of countercyclical response?
- In the social protection areas, were the objectives aligned with the main impacts of the crisis on the population—with regard to income loss of poor and vulnerable households, increased unemployment, and reduction in fiscal space for the government to finance ongoing or new social protection or social safety net needs?
- In all sectors, did the Bank have adequate knowledge of country conditions to enable strongly designed operations?
- At IFC, what was the strategic relevance of the new financial sector initiatives, including new advisory services, for clients' crisis situations? To what extent were these initiatives designed to restore or maintain stability in the financial system? What was their cost and benefit, considering the time it took to set them up and the volume of business generated? What is the relevance of the facilities today? At MIGA, what was the strategic relevance of its crisis contributions to the Joint IFI Initiative?

Evaluation Questions for Sector and Portfolio Reviews

Relevance to the Crisis

- Were the Bank's lending instruments appropriately designed to respond to the global crisis in terms of their policy content?
- Were the results sought in World Bank Group financing operations economically beneficial and strategically relevant to countries, in light of their response to the crisis as well as their contributions to medium-term development?

Efficacy and Efficiency

- In countries' financial sectors, to what extent have short-term stabilization needs of financial institutions been met? To what extent have medium-term underlying structural issues in the financial systems of borrowers during the crisis been addressed?
- In the fiscal area, did the Bank's operations help create fiscal space to support key pro-poor expenditures? Did

they support structural fiscal reforms to improve resilience to future crises?

- In the social protection area, what results did the Bank's interventions—both operational and advisory—achieve? Did they succeed in alleviating the impact of the crisis in the short term? Did they help build up countries' social protection systems in the medium and long term? Were the needs of the poorest protected?
- At IFC, what were the interim and longer-term results of IFC's initiatives, including its advisory services? Were the projects originated, approved, and disbursed in a timely fashion? What was their systemic significance? Did IFC's intervention offer additionality (innovation and demonstration effects) or attract additional financing? Were the initiatives effective in meeting their objectives?
- To what extent was IFC able to engage new clients, or were its investments geared primarily toward stabilizing the positions of existing clients? How did active portfolio management at IFC add value to existing clients during the crisis?
- What was the impact of MIGA's crisis response operations? Were they complementary to other World Bank Group operations (recognizing the demand-driven nature of MIGA's business), and what were the developmental benefits derived?

Data Sources and Sample Construction

Data on the Bank have been taken largely from internal databases, from the Financial Sector Assessment Program (FSAP) office, the Comptroller's office, and the Treasury. Data used for selective comparisons of the Bank relative to other IFIs, in countries common to both, have been obtained from the relevant IFIs and are available in their annual reports, or on their websites. Interviews were held with staff and evaluators at the European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Inter-American Development Bank (IDB), Asian Development Bank (ADB), African Development Bank (AfDB), European Investment Bank (EIB), and the European Union (EU), and evaluative evidence provided in recent internal evaluations of some of these agencies was drawn upon (ADB 2011; IMF 2011c; EBRD 2010). Data for the construction of indicators of financial stress have been taken from a variety of sources (detailed in appendix B, Section 2). They include the World Bank's World Development Indicators; United Nations Social Development Statistical Databases; Global Development Finance; Global Economic Monitor; the IMF's International Financial Statistics, World Economic Outlook; Bloomberg; and Datastream.

The time period selected for the evaluation of crisis response is FY09–10, and overall response, in terms of lending, is compared with pre-crisis lending patterns (FY05–07). In the sectoral analysis, some FY11 operations are also reviewed in the social protection area, as they meet crisis response criteria. Some countries experienced crisis and recovery earlier or later than others, so country-specific measures were not used, as this would have led to difficulties of comparability.

As the Bank Group has no specific indicator for crisis response operations (in contrast to the EBRD, for example), criteria were established in the portfolio analysis for the identification of crisis response operations, defined as those that met at least one of the following criteria:

- The rationale for the project includes strong references to the crisis, and at least some of the development policy objectives were set with the aim of responding to the consequences of the crisis.
- The operation was initiated in response to the crisis, and it was not programmed in the Country Partnership Strategy (CPS) or Country Assistance Strategy (CAS).
- The operation may have already been in the CPS, but the commitment amount was increased.
- The operation may have already been in the CPS, but its processing was brought forward.

Each sector's analysis combines a simplified review of the entire portfolio of operations with content in the specified area, with a more focused review on operations with higher sector or thematic content, and an in-depth examination of a select number of countries and operations. Sample selection for detailed country case reviews was based on purposive (stratified) sampling, following a common broad logic, under each of the focus areas of the evaluation. The principal aim was to cover World Bank Group interventions across a spectrum of affected countries, based on measures of sector-specific stress, to the extent available. Because many operations had elements in a number of different sectors, IEG made an effort to encompass both dedicated (single sector) and hybrid (multisector) operations. Every region in which the World Bank Group conducts operations was covered, with oversampling of the Latin America and the Caribbean and Europe and Central Asia Regions, as they had the most operations in which crisis response features as an explicit objective. Operations of all sizes were sampled with a view to examining both the large and visible as well as those that may have received less scrutiny.

In the fiscal area, the evaluation of World Bank crisis response DPOs with a focus on fiscal management combines

findings from a streamlined review of the 67 crisis response operations and an in-depth review of 25 of these operations in 16 countries. The simplified review covered the portfolio of all 100 DPOs with some fiscal content approved in FY09 and FY10. The analysis, however, focuses only on the subset of 67 DPOs identified as crisis response operations. In the financial sector, 34 operations were reviewed in 18 countries. In the social protection sector, 38 projects were covered in 16 countries. In each case, the analysis also reviewed other forms of country engagement in the reference period, such as analytic and advisory work, as well as prior analytic and advisory activities (AAA) that were relevant for crisis response, such as the FSAPs in the financial sector.

IFC's evaluation of its crisis response covers all investment projects underwritten as part of the IFC's Financial Crisis Response and Recovery Initiative and all the advisory projects under the Access to Finance Advisory Services. The evaluation reviewed all 13 individual investment projects under the Debt and Asset Recovery Program, six under the Bank Recapitalization Fund, and two under the Infrastructure Crisis Facility. It also covered advisory projects under the Access to Finance–Financial Crisis Response and Recov-

ery Initiative. Routine interventions during the crisis were assessed on a purposive (stratified) sample basis, based on a population of 266 financial market investment projects that made net new commitments during the period September 2008–June 2010.² In total, 50 projects, or 19 percent, were selected into the sample.

IFC's assessment was guided by a standard set of questions based on data from relevant project documents, including Board documents, project supervision reports, and Development Outcomes Tracking System documents; these were supplemented by interviews with task team leaders and their managers.

The following criteria were adopted for counting a guarantee project as part of MIGA's crisis response. First, the guarantee had to support a cross-border investment by a financial institution into a subsidiary located in a developing host country. Second, the host country had to have been affected by the crisis, and the underlying purpose of the guarantee project had to be crisis-related. Third, the guarantee project had to become effective during the crisis period.³ Seventeen guarantee projects fit these criteria.

2

The Bank Group and Other International Financial Institutions: Resource Allocation and Instruments

This section evaluates three aspects of the Bank's response to the global crisis. First, how did the Bank respond to the crisis, compared with relevant operations of other IFIs and MDBs, given their mandates, in terms of volumes of support, nature, and directions of assistance? Second, how did the distribution of Bank and other IFI assistance, and resource allocation, relate to countries' levels of stress during the crisis? Third, to what extent did the Bank have appropriate instruments for crisis response, and how did these compare with other IFIs, with regard to design and pricing, and what are the implications for the institutions' capacity to respond to future crises?

As acknowledged in the Phase I report, the *volume* of the Bank's response to the crisis was unprecedented. Management responded in line with G20 expectations of strong countercyclical support. The focus in this chapter is thus on the *allocation* of the Bank's considerable countercyclical incremental financial flows, which were generated in association with the crisis, to see if they were directed toward crisis-affected countries. IEG recognizes that multiple factors affect the allocation of Bank resources, including, first of all, country-driven demand, country performance and client relations, the presence or absence of other donors, and so forth. The aim of the analysis is to factually describe what happened, comparing outcomes with past lending patterns and with other IFIs. The analysis is essentially ex post, and IEG recognizes that at the time of the crisis the prevailing high levels of uncertainty may have made decisions difficult. The analysis of other IFIs is undertaken from the limited perspective of comparisons with the Bank, in the common group of countries that were Bank borrowers during the crisis, and it does not evaluate the overall strategy of other IFIs. It takes into consideration differences in their mandates, given that the primary orientation of the Bank (and also select other IFIs) is to support medium-term development.

The Bank also supported the crisis through nonlending advisory services; these are examined in the context of specific assistance to individual countries in subsequent chapters. The analysis of the *content* of lending operations, in terms of short-term crisis support or medium-term policy reform, is also addressed in subsequent chapters.

The final section of the chapter examines IBRD lending instruments and their terms relative to other MDBs, taking into account the context of the Bank at the onset of the crisis as an exceptionally strong financial institution and reviewing implications for the Bank's response to future crises in the present financial context.

Overall Findings

In many respects, the Bank behaved similarly to other MDBs in responding to the crisis. In accordance with their mandates, all MDBs responded within the framework of their roles in long-term development assistance. All sharply increased their lending for crisis support, and the World Bank's countercyclical lending response was proportionally greater than that of other MDBs. Trade finance initiatives were a central plank of all MDBs' crisis response programs, paralleling IFC's Global Trade Finance Program. All MDBs relied

largely on pre-existing instruments for their expansion in lending. ADB, IDB, and AfDB, like the World Bank, made efforts to revive special crisis lending instruments that were legacies from previous crises. All ramped up their lending to middle-income country clients, and all MDBs' lending concentrations were lower than those of the IMF, which focused selectively on a limited number of more severely affected countries.

For all MDBs, volumes of nonsovereign operations softened during the crisis, except at the EBRD, where nonsovereign operations rose sharply. A notable contrast here is between the responses of IFC and EBRD—especially in view of these institutions' similar structures. IFC's financial operations were broadly flat over the crisis period, whereas EBRD's expanded by 58 percent. At one level, IFC and EBRD pursued different crisis response strategies, with EBRD increasing its exposure and IFC reducing its exposure. However, in different ways, both may have aimed to protect their own balance sheets. At EBRD, given its considerable regional portfolio concentration, the mobilization of support to its clients was a business imperative. IFC's dispersed portfolio implied that it did not face the same pressures to support specific regions. IFC's capital-constrained position entering the crisis has also been pointed out as a factor; however, other MDBs—ADB, AfDB, and IDB—had been similarly constrained, as was EBRD.

Comparing the allocation of additional resources by the World Bank and other IFIs and MDBs with the levels of stress experienced by countries during the crisis, IEG finds that the Bank response was distributed unevenly across crisis groups, with a low correlation between crisis intensity and incremental response. Although the Bank's crisis response was a large increment of its previous lending, increases in lending were distributed to a broad set of countries, closely following pre-crisis lending patterns, and were not systematically countercyclical in terms of countries targeted or incremental volumes of support. This is not to say that the Bank did not increase lending to affected countries. Indeed, some severely affected countries received large incremental lending, but so did a lot of less-affected countries. This is a factual observation and does not imply a judgment as to whether Bank support to these countries was justified or otherwise. There could have been many reasons for the Bank's interventions in certain countries: to build confidence in times of turbulence and high levels of prevailing uncertainty; to stabilize countries of systemic importance; to stand by core clients or better performers; or to step in, in the absence of other lenders.

The Bank, as well as other MDBs, made funds available to several countries that had no IMF program. Funds from

the Bank tended to disburse more rapidly than those from other sources. **Compared with the Bank, increased lending by other major donors was higher for countries with greater crisis effects as measured ex post.** Incremental lending by most other donors was better aligned with crisis intensity, and similar results obtain if comparisons are made with a more restricted group of MDBs that does not include the IMF, EU, or EIB—institutions that made significant contributions to crisis support in European countries. These results hold broadly whether countries' levels of stress are measured in GDP alone or along other dimensions—credit growth or reserve decline, for example. This could suggest a higher level of risk aversion at the Bank and highlights the inherent tension between crisis support and risk aversion. IEG's analysis recognizes, however, that many factors influence decisions on lending allocations: pre-existing engagement, country demand, as well as country capacity and headroom, creditworthiness, and lending by other IFIs. The analysis has made efforts to account for several of these factors.

IBRD's large volumes of loans during the crisis were made at historically low rates. This reflected the low market interest rates to which IBRD loan pricing is referenced, as well as the significant reduction in its lending rates shortly before the crisis and modified features of its loans, such as the removal of maturity limits based on income per capita, reflecting its strong financial situation and market conditions prevailing in 2007 and in the context of a package of measures aimed at reducing the cost of borrowing for middle-income country clients and sustaining net income transfers to IDA. After the onset of the crisis, IBRD rates and product designs were adjusted, the contractual spread was raised in August 2009, and maturity-based pricing was introduced for all lending, but not until early 2010. IBRD lending remained lower in cost than most alternative sources.

Some of the changes introduced by the Bank in 2007 were very useful in the context of the crisis, such as the modifications to the design of the Deferred Drawdown Option (DDO), which allowed greater flexibility in drawing it. The DDO was widely used during the crisis and proved a valuable instrument for precautionary borrowing. But to the extent that DDOs are not drawn, they provide no revenue for the Bank, although there is a charge against its capital. DDO pricing was revised upward in August 2009 to reflect such factors.

The Bank, as well as other IFIs and MDBs, tried to introduce crisis-specific lending instruments or modifications in features of existing instruments that would allow the lending of increased sums to crisis-affected countries, albeit at a higher price and at significantly shorter maturi-

ties.¹ The IMF continued its significant premiums for larger drawings and added incentives for timely repayment. At the IDB, base lending rates were raised and applied to outstanding loan balances. AfDB's lending rates during the crisis were also higher than those of IBRD.² ADB's premium-priced, short-maturity crisis facility formed a large part of its crisis response.

The World Bank clarified access rules to its Special Development Policy Loan well into the crisis, retaining the need for a disbursing IMF program and specifying that it could be used only with IFI consortia. All MDBs saw some activity under these instruments, but only ADB developed a significant program—arguably because its interventions were not tied to an IMF program and were all in countries without IMF programs. IDB saw considerable uptake, but funds were not fast disbursing and carried a high premium. A large part of the commitments was cancelled. The use of crisis terms by both the AfDB and IBRD was very limited.

From the point of view of loan pricing, other IFIs were relatively better positioned than IBRD to protect their income from lending operations during the crisis—the IDB and AfDB through their higher lending rates for standard products compared to IBRD, the IMF through its differential pricing for above-quota access, and the ADB through its greater use of its crisis lending facility. IBRD instruments also had long maturities compared with other IFIs, further enhancing the attractiveness of the loans. Although IBRD's prudent financial management—including innovative equity duration swaps of 2008 and conservative investment policies—gave considerable protection to its overall income, the impact of providing large volumes of lending during the crisis at regular terms on the income from lending operations raises concerns over the medium term. Reduced equity earnings (from persistently low market interest rates) and constraints to income allocation caused by fixed IDA transfers reinforce these concerns.

Adverse market factors, combined with the rapid increase in lending and the limited corresponding increase in capital and reserves, have led to a decline in the Bank's financial ratios. Its equity-to-loan ratio declined from a peak of more than 37.5 percent before the crisis to around 28.5 at the end of FY10; given the long disbursement periods for IBRD loans, this figure is projected to further decline until FY15–17. This reduction was a strategic choice by the Bank and its shareholders, in view of its comfortable capital position at the start of the crisis. However, in the circumstances of today, with increased discussions of prolonged or multiple crisis events, the question is whether the current limited headroom can constrain the ability to respond to future

large-scale crises. At the time the Bank recognized that in the event of a further capital shortfall, there may be a need for additional measures to shore up capital, and preemptive measures to address capital shortfall may be timely.

The issue of graduation is a recurring one for MDBs during crises, delaying Bank support for Korea at the time of the East Asia crisis and for Hungary and Latvia during the present crisis. EBRD's handling of the issue was swifter, as it acted quickly to postpone Hungary's and Latvia's (and other countries') scheduled graduation and to announce that management planned to propose a postgraduation policy for them. In the World Bank Group, the situation was different in that Hungary and Latvia had already graduated when the crisis struck, presenting a greater policy challenge. In principle the IBRD Articles of Agreement permit lending to any member (including graduates) should other financing become unavailable, but in practice the lack of a clear policy or precedent led to a counterproductive delay, notably for Hungary. Going forward, the post-crisis clean-up provides an opportunity for the formulation of clearer rules for graduates.

International Financial Institutions' Crisis Response: An Overview

All IFIs and MDBs increased their lending during the crisis. The Bank's average increase of 96 percent per year in 2008–10 relative to 2005–07 exceeded the response of EBRD, IDB, and ADB (58 percent, 79 percent, and 58 percent, respectively) and was similar to that of AfDB (100 percent). Their combined total portfolios (loans, equity investment, and guarantees) rose by \$100.9 billion in 2009 (table 2.1).

The IFIs together and individually responded in accordance with their mandates. Support in many cases involved actions by international consortia including the IMF, EU, and EIB, as well as the World Bank Group and other multilateral development banks.

Other forms of support were also available to some Bank clients. The U.S. Federal Reserve entered into currency swaps with major emerging market countries in 2009, for trade finance (\$30 billion each to Brazil, Mexico, South Korea, and Singapore). The EU, in collaboration with the IMF, established a \$600 billion fund to assist its weaker members.

Financial Capacity at the Time of the Crisis

With the exception of the IBRD and the IMF, the IFIs started the crisis period with constrained capital; indeed, the ADB was already working on the documentation and analysis to support a capital increase. IBRD and IMF were exceptions, given limited middle-income country borrowing from both

TABLE 2.1 IFI Operations during the Crisis, 2008–10

	Current lending (US\$ billions)					Gross outstanding loans, equity investments, and guarantees (US\$ billions)		
	2005–07	2008	2009	2010	Average annual change, 2005–07 versus 2008–10 (%)	2009	2008	Increase (US\$ billions)
World Bank	23.3	35.2	55.0	46.8	96	121.8	107.4	14.4
IFC ^a	5.9	10.4	8.6	11.1	71	29.2	24.8	4.4
EIB	60.6	82.7	110.0	95.2	58	472.3	410.6	61.7
EBRD	6.4	7.5	11.0	12.0	58	26.2	21.7	4.5
ADB	7.9	10.6	14.1	12.4	58	44.3	38.2	6.1
IDB	7.5	11.2	15.5	13.4	79	59.0	52.2	6.8
AfDB ^b	1.5	2.2	5.0	2.0	100	12.3	9.4	2.9
Total	113.1	159.8	219.2	192.9	69	765.1	664.3	100.8
IMF	5.1	49.5	123.3	166.0	2,131			
Memo items								
US TARP		700						
US Stimulus		825						

Source: Changes in current lending are based on data received from individual IFIs. For country lending, see appendix B tables B.1–B.6. Gross outstanding portfolio data are from Standard and Poor's 2010.

Note: Institutional totals on calendar year basis, including lending to countries that are not eligible Bank clients.

a. Net commitments including Global Trade Finance Program, fiscal year basis.

b. Based on the AfDB website and annual statistical compendium.

institutions in prior years and, in the case of IBRD, conservative financial policies, including on loan pricing in the preceding decade. As a result of the scale of the crisis, all IFIs except the Bank requested additional capital at an early stage.

Although the Bank had a relatively comfortable capital position before the crisis, the lending headroom constraint became manifest midway through the crisis. In due course, the World Bank, IMF, and regional MDBs all received authorizations to increase their funding capacity—with the aggregate increase in capacity totaling almost \$1 trillion, with the Fund representing the majority of the increase.³ For the MDBs, the overall increases approved aggregated to more than \$400 billion, reflecting increases of 200 percent for AfDB (\$70 billion) and ADB (\$110 billion), 70 percent for IDB (\$70 billion), 50 percent for EBRD (\$14 billion), and a more modest 30 percent for IBRD (\$86 billion). IFC received a capital increase of \$200 million (table 2.7). The majority consisted of callable capital. Although callable capital increases are important for the borrowing constraints of regional MDBs, paid-in capital is the most important for determining the increase in lending headroom. IBRD's increase of \$5.1 billion of paid-in capital (amounting to an increase of around 14 percent in shareholder equity) compared favorably with some other MDBs (EBRD and EIB received no increase

in paid-in capital, and IDB received an 8 percent increase; ADB's paid-in capital increase of around \$4 billion equivalent, or 4 percent of its total capital increase, approached that of IBRD and accounted for a larger share of its shareholder equity—29 percent).⁴

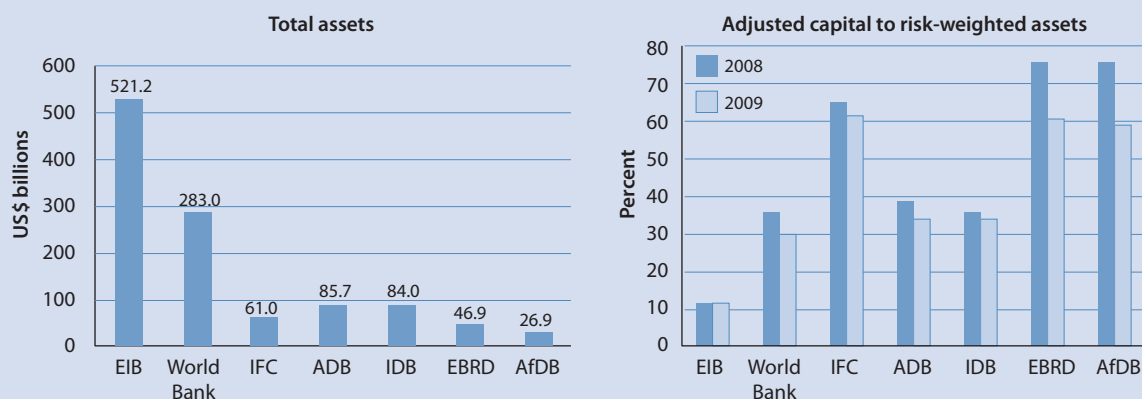
IFI Mandates, Instruments, and Finances

Given the IMF's mandate to provide temporary balance of payments assistance and focus on international financial stability, and swift appreciation of the urgency of the situation, the G20 gave it a prominent role, adding \$500 billion to its capital; that effectively tripled its pre-crisis resources of \$250 billion. Its resources were augmented through a large increase in its quota, an issuance of Special Drawing Rights (SDRs), and new borrowing agreements with several countries; however, these did not involve new paid-in capital (IMF 2010b). The broad objectives of the Bank and other MDBs during the crisis, in accordance with their mandates, reaffirmed in the context of the crisis and endorsed by the G20, were to safeguard long-term development and poverty reduction (box 2.1).⁵ IFC and EBRD shared the objectives of promoting long-term stability and private sector development, while at the same time safeguarding and promoting their own investments. These dual and sometimes conflicting forces shaped their crisis response. Unlike the Bank, IFC

BOX 2.1 THE WORLD BANK GROUP AND OTHER IFIs: OPERATIONS AND ASSETS

The World Bank is the largest of the MDBs except for the EIB. However, the EIB lends mostly to European clients in both the public and private sectors, with investment-grade credit. Most of the World Bank's clients carry below-investment-grade ratings. IFC and EBRD are large private equity funds that invest or lend to private companies in emerging market companies without government guarantees. Both ADB and IDB lend to both governments and private borrowers. However, they limit lending to private borrowers, 10 percent of the portfolio for ADB and to 20 percent of IDB's equity.

The World Bank and Other IFIs in the Crisis Period



Note: ADB = Asian Development Bank; AfDB = African Development Bank; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; IDB = Inter-American Development Bank; IFC = International Finance Corporation.

The risk profiles of these institutions are notably different. The EIB is the most leveraged, with adjusted capital to risk assets of about 11 percent. The World Bank's risk adjusted capital to risk assets was higher than EIB's but lower than those of AfDB, ADB, and IDB. IFC and EBRD have high levels of equity, as their client risk profiles are the most risky because of their high proportions of equity investments.

Source: Standard and Poor's 2010.

was capital constrained at the outset of the crisis, in part because of its transfers to IDA (World Bank and IMF 2010).

Although the separation of mandates for the IMF and MDBs has been fairly clear in principle, in practice all the MDBs played a role in crisis support and all increased their shares of quick-disbursing funding for balance of payments and fiscal support, especially to middle-income countries.⁶ This trend is less evident for lower-income countries, given the stricter rules governing the share of development policy lending in the use of concessional resources. Fast-disbursing funds offered by the Bank rose from an annual average of \$6.8 billion in FY05–07 to an annual average of \$21 billion in FY09–10.

All MDBs largely relied on their pre-existing core instruments for sovereign lending during the crisis, although they also made efforts to respond with newly fashioned crisis-specific instruments, drawing on their experiences with crises a decade before. There was some blurring of the boundaries between investment and development policy operations—no-

tably in IDB and World Bank quick-disbursing investment lending support for crisis-related social programs in Colombia and Mexico, building on sectorwide approaches and in the Bank's loan to Mexico for support to housing finance (\$1.01 billion).⁷ There was also some further blurring with regard to the role of the IMF in fiscal support. During the present crisis, the IMF, by mandate primarily a provider of balance of payments support, also increased its use of direct fiscal support, a traditional role of the Bank's policy-based lending.⁸

Crisis Responses—The MDBs

The MDBs' responses to the crisis were broadly similar at one level. All attempted to provide particularly focused assistance to their deeply affected clients, while also seeking to help countries suffering from secondary crisis effects, such as credit contraction and the drying up of trade finance, through new initiatives tailored to address these, with varying degrees of success.

IDB responded on several fronts—helping Mexico, Central America, and nearby countries, which were directly and deeply affected by the recession in the U.S. economy; easing liquidity constraints, especially in the private sector, of smaller client countries; and strengthening the IDB trade facilitation program by identifying new partner lending institutions. Sovereign lending rose during the crisis period—by about 40 percent between 2009–10 and 2007–08—in part by cutbacks in nonsovereign lending. Approvals programmed for later years were brought forward. Lines of credit provided under its Liquidity Program for Growth Sustainability did not absorb as many resources as planned, with less than 15 percent of the \$2 billion in loans approved under the Liquidity Program to Costa Rica, the Dominican Republic, El Salvador, Jamaica, and Panama actually disbursed. In 2009, the IDB Board approved the repositioning of the remaining Liquidity Program funding for ordinary lending.⁹

The **ADB** ramped up its existing trade facilitation program from \$150 million to \$1 billion and introduced a \$3 billion Countercyclical Support Facility (CSF). Its sovereign lending rose by 34 percent between 2007–08 and 2009–10, and the much smaller nonsovereign lending shrank by 5 percent. Commitments to its low-income clients rose by 29 percent, in part funded by an exceptional liquidity provision of \$400 million for Asian Development Fund–only countries (box 2.2).¹⁰

The World Bank had DPO programs at the same time with each of the ADB's five CSF recipients—Bangladesh, Indone-

sia, Kazakhstan, the Philippines, and Vietnam; the IMF had programs with none—perhaps because of the lesser severity of the crisis in most of these countries. Among East Asian countries, only Mongolia had an IMF crisis-related program during the crisis. ADB borrowers with IMF programs were mostly concessional (or blend) borrowers from Europe and Central Asia—Armenia, Georgia, the Kyrgyz Republic, and Tajikistan—and South Asia—the Maldives and Sri Lanka.

Similar to the ADB, the **AfDB's** framework for responding to the crisis encompassed three initiatives, namely the establishment of an Emergency Liquidity Facility and a Trade Finance Initiative and actions to increase support to countries eligible for African Development Fund concessional financing. The AfDB also aimed to build on its own medium-term strategy, via assistance to clients affected by deteriorating commodity prices, exports, terms of trade, and tourism and support to infrastructure financing.

AfDB's commitments rose more sharply than those of the ADB or IDB—128 percent between 2005–07 and 2009–10. However, this was largely driven by strong growth in nonconcessional loans to middle-income country borrowers, such as Botswana, the Arab Republic of Egypt, Mauritius, Morocco, Nigeria (AfDB blend), South Africa, and Tunisia. Notwithstanding AfDB Board approval of the Emergency Liquidity Facility as a central pillar of the AfDB's crisis response strategy, only one such loan was approved—to Nigeria's United Bank of Africa. Other large operations, such as its policy-based loans to

BOX 2.2 ADB EVALUATION OF ITS CRISIS RESPONSE

An ADB evaluation of its crisis response has concluded that the bank was prepared for this crisis, having learned lessons from the East Asian financial crisis. ADB's decision to respond to the crisis was swift, but implementation was delayed due to its financial resource constraint and limited headroom.

The evaluation concludes that, among ADB's successes, it (i) augmented Asian Development Fund resources; (ii) allowed frontloading of biennial Asian Development Fund allocation; (iii) enhanced trade financing for commercial banks in the region; (iv) effectively analyzed and disseminated knowledge on implication of the crisis on member countries; and (v) approved a significantly larger volume of assistance for crisis support.

It found that the new CSF was responsive to client needs in three of five countries. But it concluded that the delayed delivery of assistance eroded responsiveness in Indonesia and that the instrument was less responsive to the special needs of blend countries such as Bangladesh (an IDA-only country in the World Bank), which faced difficulties caused by the short maturity and high charges of the CSF. Results of six programs in four countries were deemed satisfactory, notwithstanding concerns that lumpy repayments of the CSF could cause Bangladesh some debt servicing problems. Outputs and outcomes were uncertain in Tajikistan.

ADB draws several lessons for improving its crisis responsiveness. These include the need for (i) a separate concessional crisis response window for Asian Development Fund countries; (ii) more flexible use of the CSF, with longer tenor and a deferred drawdown facility particularly for blend countries; (iii) better timeliness of assistance; and (iv) greater headroom.

Source: ADB 2011.

Botswana and Mauritius, financial sector policy-based loans to Egypt and Morocco, and a major power sector loan to South Africa, were on regular terms. For nonsovereign borrowers, the AfDB's Trade Finance Initiative provided \$500 million in lines of credit for trade finance by African banks and another \$500 million in its Global Trade Liquidity Program.

As in the ADB, IDB, and World Bank, AfDB's concessional lending to low-income countries remained robust but did not increase as sharply as lending to middle-income countries. As in other MDBs, this reflected the fact that concessional resources were constrained by existing funding and rules of the African Development Fund, the AfDB's concessional window. Many of the African Development Fund's sovereign clients had concessional programs with the World Bank and the IMF during the period. And several of its middle-income clients—Egypt, Mauritius, and Morocco—had Development Policy Loan (DPL) programs with the World Bank. None of these middle-income sovereign clients had programs with the IMF. This added to the debate within the AfDB about its use of policy-based lending—whose share in lending more than tripled between 2008 and 2009—and the division of labor with the IMF (ADF 2010).

Of all the IFIs, the **EBRD** faced the most challenging crisis situation, with many EBRD countries and clients directly affected by their own financial meltdowns and with much EBRD equity and assets at risk. Although caught unaware like others by the crisis and early warning signs in the region, EBRD played a very proactive role during the crisis, with its speedy formulation of a clear crisis strategy, clear separation of crisis and noncrisis operations, and recognition of the need for a capital increase (box 2.3). Its financial commitments rose by 79 percent between 2005–07 and 2009–10.¹¹ Alongside the IMF, the European Commission, and others, it provided leadership for the Vienna Initiative, which helped stabilize European parent bank engagement in Central and Eastern Europe—especially those receiving financial support from the international financial institutions (IMF 2009b, 2011d). And with other IFIs, central banks, and governments, the EBRD supported selected banks as part of the IFI Joint Action Plan for Central and Eastern Europe. It doubled the size of its pre-existing Trade Finance Facility in 2009, although there was little uptake because of the concomitant collapse in trade. Finally, it put on hold the graduation process for Hungary, Latvia, and

BOX 2.3 EBRD CRISIS RESPONSE EVALUATION

The EBRD evaluation (EBRD 2010) focused on three periods: (i) the pre-crisis period 2006 to August 2007; (ii) the period of rising instability, September 2007 to third quarter 2008; and (iii) the period of crisis response, from fourth quarter 2008 to the end of 2009. It found the following:

- The EBRD carried a high degree of commercial risk exposure to the region compared with other IFIs. EBRD's country risk management system did not lead to detectable changes in country risk exposure. It took courage and leadership to commit the Bank to take further private sector risks in response to the crisis.
- When making its crisis response strategy, EBRD was already operating at full capacity with a severe capital constraint, exacerbated by a planned volume increase and 2008 reported losses.
- EBRD used its resources creatively, including relaxing its capital constraint and requesting a capital increase. The proportion of senior debt remained unchanged, but the EBRD made greater use of subordinated debt at the expenses of equity and guarantees, especially in the financial sector.
- As volume increased more quickly than staffing, the increase was delivered mainly by increasing project size.
- The sectoral distribution of projects did not show any major change over 2008, although the EBRD had initially expected the financial sector to require the majority of the increase in finance.
- The EBRD's leading role in the Vienna Initiative was significant and was complemented by the EBRD's provision of finance to banks without a foreign parent, such as Parex (Latvia).
- The EBRD also sought to finance small and medium enterprise through banks, but there was little disbursement in the early crisis period, and the pricing of the credit lines proved controversial.
- The EBRD Trade Facilitation Programme was earmarked for a large expansion, but the collapse in trade actually reduced demand in the first three quarters of 2009.

Source: EBRD 2010.

five other new EU members needing support, originally slated for 2010.

One element of EBRD's crisis response relevant for comparison with the World Bank Group response is the difference relative to the IFC, the EBRD's main Bank Group comparator. Data indicate that IFC's crisis response differed strongly from EBRD's—rather than being countercyclical, IFC's response was neutral to procyclical. This has been explained as largely the consequence of lessons learned in previous crises, during which IFC took many losses; hence it pursued a typical private-sector response of protecting its assets and portfolio. Whereas EBRD appears to have looked out for clients and the region rather than its balance sheet, a closer examination suggests that it too was aiming to protect its portfolio. Data from EBRD suggest that most of its lending over the crisis period was to existing clients rather than new ones—81 percent in 2008 and 84 percent in 2009, compared with around 60 percent at IFC.¹² More than one-third of the EBRD's portfolio was exposure to banks. Many were subsidiaries of regional banks, but often did not have parent guarantees for EBRD's loans. Therefore, it was in the EBRD's interest to secure support from the parent banks, a logic that bore fruit in the form of EBRD's strong supporting leadership role in the Vienna Initiative. Its high regional exposure thus contributed to the motivation for defensive support to banks in a too-big-to-fail situation. IFC was not motivated by such factors, given its smaller regional portfolio.

A second element of interest for comparison is EBRD's handling of graduating clients. Eight EU countries of Central Europe and the Baltics were scheduled for graduation by 2010, with the Czech Republic having already graduated. Given the stresses of the financial sectors in their countries, and EBRD exposure thereto, EBRD decided to postpone graduation for the remaining seven countries from 2010 to the 2010–15 period; it announced, "Management would propose a post-graduation policy for them." In the World Bank, Hungary and Latvia had already graduated in 2007, as had the Czech Republic from the EBRD, also in 2007. Although EBRD acted quickly to put on hold the graduation process for Hungary and Latvia, the World Bank took a year to decide to resume crisis lending to them. Though the two situations are not identical, quick decision making by the EBRD was clearly less painful for both the countries involved and the institution.

Crisis Response—The International Monetary Fund

Notwithstanding concerns that it should have better foreseen the crisis, the IMF rose to the forefront at the Annual Meetings of 2008, where it made an urgent and eloquent call to action on global stimulus (IMF 2011b, 2008). Fund staff

also mobilized very quickly, fast-tracking large programs to several countries before the end of the year, including three severely crisis-affected EBRD borrowers in Europe. More programs followed in 2009 and 2010—beyond Central Europe and the Baltics to other parts of Europe and Central Asia and to Colombia and Mexico, as well as to a number of smaller countries. In 2009, four countries secured programs exceeding SDR 5 billion—Colombia, Mexico, Poland, and Romania. In 2010, five countries did so, of which Mexico and Poland were repeats from 2009, joined in 2010 by Greece, Ireland, and Ukraine.¹³

IMF financial support, consisting mostly of precautionary FCLs, was highly concentrated, with nine severely affected countries accounting for 88 percent of commitments from 2008 to 2010. The IMF did not have programs in the large number of countries supported by the Bank and other MDBs—for example, in Egypt, Morocco, and Tunisia in the Middle East and North Africa or Botswana, Mauritius, and Nigeria in Africa. Nor were there Fund programs in Indonesia, the Philippines, and Vietnam in East Asia, or in Bangladesh in South Asia, or in Kazakhstan in Europe and Central Asia, despite the ADB and Bank programs in these countries (IMF 2009d).

Bank Crisis Operations: Lending Vehicles and Efficiency

The remarkable increase in resource outlays by the Bank, even in relative terms, was discussed in the Phase I evaluation (IEG 2010, chapter 3). This evaluation points to factors that contributed to this achievement. First, there was a modest acceleration in the rate of disbursements. For investment lending projects, if the disbursement ratio of the outstanding balance of investment loans at the onset of the crisis had remained unchanged from its pre-crisis level, total disbursements during the crisis would have been lower by \$2.2 billion.¹⁴ For IBRD DPLs, there was an increase in the share that disbursed in less than 6 months after approval, from 65 to 81 percent in number, though somewhat less in value—39 to 44 percent—suggesting that some large IBRD crisis-period DPLs may not have disbursed rapidly. There was a decline in IDA DPL disbursements within the first 6 months, from 52 to 32 percent of commitments by value.

During the crisis, there was somewhat greater reliance on projects that were relatively easy to prepare and negotiate. Programmatic DPLs declined, compared with stand-alone operations, from 64 to 59 percent in number and from 62 to 57 percent in commitment share.¹⁵ In investment lending, additional financing was used more frequently during the crisis, as were simple and repeater projects. The number of loans with additional financing increased to 32 percent in

BOX 2.4 IFI COOPERATION ON CRISIS RESPONSE

Greater multilateral cooperation was evident in the more crisis-affected countries of Europe and Central Asia and Latin America and the Caribbean, but in a number of countries where the Bank intervened, together with regional MDBs, the IMF was not present. And in a few cases, IFIs worked in seemingly opposite directions.

Three-way IFI cooperation (the Bank, the relevant regional development bank, and the IMF) was largely effective in **Hungary, Latvia, and Ukraine—and cooperation with the EU was also a key part of the joint support.** In Ukraine, for example, EBRD provided grant financing for bank diagnostics and, along with IFC, invested in private banks. At the same time the IMF and the World Bank provided policy support and financing. Cooperation was also strong in Latvia, even though the Bank's financial contribution was relatively small and delayed, for reasons related to its graduation. The Bank team provided analytic support on bank resolution processes and public expenditure priorities. The EBRD made an important equity investment in and provided loans to Parex Bank, which was struggling, and MIGA, as part of umbrella support provided to UniCredit Bank Austria, guaranteed UniCredit's shareholder investment in its wholly owned subsidiary in Latvia. Effective three-way IFI cooperation was also observed in **Mexico and Colombia**, where the Bank worked closely with the IDB and the IMF.

There are also several cases of two-way cooperation between the Bank and the relevant regional development bank, with less IMF involvement. In both **Egypt and Morocco**, IMF staff cooperated with World Bank and AfDB staff on technical issues, although there was no IMF program involvement or financial support. Similarly, in **Indonesia**, the Bank worked effectively with the ADB and other partners to support the government's program. Cooperation with IMF staff was satisfactory, but the latter had little involvement in Indonesia's crisis response strategy. **Brazil and Uruguay** provide additional examples. Limited involvement of the IMF may have been caused by the countries' concerns about the "stigma" attached to IMF programs and associated market response, in contrast to Bank support, which was deemed to be for long-term development. Equally, there could be elements of regulatory arbitrage, with countries preference for alternative funding because of perceived lower conditionality, or due to the Fund's limited interest in countries that were not severely affected.

By contrast, in countries such as Bangladesh, the World Bank's focus on food security in its crisis-related support contrasted with the ADB's crisis response strategy, which included a \$500 million countercyclical emergency operation. In **Botswana**, following the crisis-induced downturn in the diamond market, AfDB provided a large (more than \$1 billion) policy-based operation and the World Bank provided several investment loans. In neither country was there an IMF program. Finally, another example for consideration is a different aspect of the **Latvia** case: as EBRD was providing fresh money to Parex, IFC was seeking to purchase assets at a discount under its distressed asset facility—an event that led to perceptions of IFC's being on a different page than other IFI partners.

The World Bank, IFC, and MIGA were all part of the **Joint IFI Action Plan** for Central and Eastern Europe along with the EBRD and the EIB. Under the plan, launched in February 2009, the EBRD, the EIB, and the World Bank Group pledged up to €24.5 billion in rapid, coordinated assistance aimed at supporting banking sector stability and lending to the real economy in the region. By the time the plan ended on December 31, 2010, Bank Group commitments had exceeded their pledged amounts by about 20 percent (EBRD, EIB, and World Bank 2011) Though there are many positive aspects to the underlying Bank Group activities—especially those of MIGA, which played a unique role in the plan—it is difficult to ascertain whether any of the activities would not have been undertaken without the plan. However, given the close connection of the IFI Joint Action Plan to the successful Vienna Initiative, World Bank Group engagement in partnership with EBRD and EIB may well have added value in communicating a unified perspective to audiences about its financial intent.

Source: IEG analysis of IFI program documents and interviews with IFI staff.

the crisis period, from 25 percent pre-crisis, with a parallel increase in commitment shares. Simple and repeater projects rose from an average of 71 projects per year pre-crisis to 114 projects per year in the crisis period, or, in commit-

ment amounts, from an average of \$3.4 billion pre-crisis to \$9.5 billion in the crisis period. Their shares increased from 19 percent to 26 percent by number of projects and from 14 percent to 18 percent by commitments.

The efficiency of preparation of Bank lending operations during the crisis, based on processing time, also improved. The average time taken for preparation and Board approval of all projects—including DPOs and investment loans—declined by around 13 percent for all loans. During the crisis it took an average of 9.2 months from concept to appraisal and 4.3 months from appraisal to Board approval for an operation. This was largely driven by the reduced preparation time for DPOs, by about 30 percent, to 5.9 months (3.2 months to appraisal and 2.7 months to Board approval).

The average preparation time for investment lending operations during the crisis also declined, by about 8 percent (10.7 months to project appraisal and a further 4.7 months to Board approval). Additional financing and simple and repeater investment lending projects accounted for the decline in preparation time for such projects. Their dramatically lower preparation times, 6.2 months for additional financing and 12.8 months for simple and repeater projects, contrast with 18.3 months for other investment lending approved during the crisis. The average preparation time for the rest of investment lending increased by 3 percent.

The average preparation cost for DPLs declined by 40 percent, to about \$250,000, during the crisis, while the average preparation cost for investment lending operations declined by about 17 percent. Additional financing operations had the lowest average preparation cost during the crisis, of \$80,000. The average preparation cost for investment lending operations without additional financing declined by 4 percent. With the Bank's flat administrative budget, all these measures contributed to the stretching of its resources.

Patterns of Stress and Allocation of Bank Support

The Bank was successful in rapidly scaling up its resource outflow, not only in terms of financial flows but also through accelerated processing and disbursement, as well as through the choice of instruments associated with shorter processing times and lower costs. As noted in the Phase I evaluation, much of this increase, like other MDBs, was allocated to middle-income countries.

The following section examines patterns of resource allocation at the country level in greater detail. The question addressed is the extent to which the Bank allocated its additional resources—relative to baseline lending pre-crisis—to countries based on the levels of stress they experienced during the crisis. One caveat is that the analysis does not attempt to examine what may have happened in client countries in the absence of Bank support, given the virtual impossibility of constructing

a credible counterfactual for such a question. Although some elements of such a counterfactual could be quantified—for example, comparing the size of Bank support relative to countries' fiscal or balance of payments needs—these elements would suggest a low marginal contribution. Potentially larger impacts in terms of confidence building or market stabilization through the signaling of support are a possibility, but in view of the unexpected circumstances, it would be difficult to support the plausibility of any parameters for such effects.

It is recognized that Bank lending, in keeping with its core mandate, has to focus not only on countercyclical response but also on long-term development issues, and many other factors—country demand, support to core clients, and building confidence to stabilize markets. Moreover, in many less severely stressed countries, the Bank was the only available source of funding. Nevertheless, as in the present and previous crises, the Bank has played a strong countercyclical role in terms of lending volumes. This section of the chapter therefore examines the distribution of the incremental lending relative to levels of stress. Chapters 3, 5, and 6 examine, at a micro level, the short-term as well as medium-term development content of the Bank's crisis lending and advisory services in key sectors. Bank patterns of resource allocation reflect detailed guidelines regarding country needs and the Bank's own risk and resource management. IDA resources during the crisis were allocated according to its performance-based allocation guidelines, with additional scope for front-loading introduced under the Fast Track facility.¹⁶ There was limited scope for reallocating concessional resources across countries to those most affected by the crisis.¹⁷

IBRD resource allocation has been largely guided by parameters set by the 2009 Exposure Management Framework. Both IBRD and IDA spending priorities are further determined within a client country by the CPS process and country dialogue. Thus, actual allocations reflect factors such as country demand and the strength of country dialogue, country performance, financing gaps, and the presence of other donors. IBRD Exposure Management principles lay out a prudential framework within which countries' maximal access is determined by IBRD capital, which is distributed on the basis of parameters including country population and economic size, adjusted for country risk and country demand. Country shares are adjusted for IBRD exposure limits and single borrower limits. Limits are applied over a six-year time horizon to allow front-loading or back-loading, and there are provisions for reallocation across countries.

Reallocations were processed during the crisis period by the Crisis Working Group, which included the Bank's credit risk department, and with senior management oversight, based

on factors including countries' degree of access to capital markets. They were intended to avoid a first-come-first-served response. During FY09 and FY10, a relatively large number of reallocation requests (22 benefitting 18 countries) were accommodated, although volumes were limited (\$4.5 billion). The main beneficiaries were small countries (72 percent) and countries below investment grade with limited capital market access (78 percent). Recognizing all these processes, to what extent did the final allocation of resources reflect a response to the intensity of the crisis and its differential impact across countries?

IEG's analysis first examines incremental lending response relative to crisis incidence measured in terms of GDP decline; however, measures of GDP decline are refined relative to the Phase I analysis. Next, IEG compares the response of the Bank to the response of other IFIs and MDBs, among those countries that borrowed from the Bank during the crisis.¹⁸ Third, the analysis goes beyond GDP decline as the sole measure of crisis incidence and reviews indicators that take account of multiple dimensions of crisis: impacts on the banking system, credit, exports, exchange rates, and private consumption. High-frequency (monthly) data are used to the extent available. The analysis examines the response of the Bank relative to other IFIs based on this broader array of crisis measures, including countries' fiscal situations, using both composite indices of vulnerability and a range of separate measures of crisis. Finally, the analysis examines differences in the response of IBRD and IDA, and also the Bank compared to IFC and MIGA (appendix B, section 2).

The analysis finds that the incremental Bank response was distributed unevenly across crisis groups and is indicative of a low correlation between crisis intensity and incremental lending response. Bank lending increased for almost all countries, irrespective of magnitude and type of crisis. This is not to say that very highly affected countries did not receive high incremental lending—many of them certainly did. However, many lesser affected countries also received very high incremental lending. Some of the highest incremental Bank lending was concentrated in a few borrowers. Big borrowers (pre-crisis) were more likely to have higher incremental lending in absolute terms, not necessarily related to the degree of crisis experienced. Comparing MDB/IFI lending to the same groups of countries with the Bank, other major donors' increased lending was higher for countries with high crisis effects. It was clearly true of the IMF, consistent with its mandate; however, even excluding the IMF, the incremental lending by several other donors was mostly aligned with crisis intensity. The result also holds true if the EU (which had a political mandate to respond to crisis-affected countries in Europe) and the EIB, which also has

a significant European focus, are excluded. Regional MDB response, in aggregate, also had greater crisis focus. These comparisons provide a benchmark to the Bank's position; however, they are not an analysis of the crisis response of other IFIs/ MDBs, as they focus on countries that borrowed from the World Bank over this period.

Measuring Crisis Incidence: IEG Phase I versus Phase II Evaluations

Although a number of indicators have been used to measure incidence of the recent global financial crisis, a basic, widely used measure is the drop in GDP, also used in IEG's Phase I crisis response evaluation (IEG 2010). Comparing the Bank's response with the intensity of the crisis among borrowing countries in FY09–10, the Phase I evaluation concluded that most affected countries had the highest incremental lending and that volume of Bank response was broadly in line with crisis severity, based on separation of countries into three groups of high, medium, and low crisis effects.

The present analysis begins with a more refined measure of GDP decline, based on the difference between actual and forecast GDP growth rates, which helps bypass some difficult issues in cross-country comparison due to countries' different starting positions.¹⁹ Second, the regression analysis in this report treats crisis indicators as continuous variables. For purposes of illustration, rank order-based measures, using a wider spectrum of country groupings based on 5 or 10 country bands, are used. This corrects problems caused by the "broad-banding" of countries into three groups.²⁰

GDP Decline: Measuring Crisis as Output Collapse—The World Bank

The adjusted measure shows, first, that World Bank lending increased for most country groupings, irrespective of severity of decline in GDP growth. For instance, of the 117 countries that received any lending in FY09–10, only 28 had new commitments lower than their FY05–07 levels, and these were widely dispersed across countries with differential crisis severity.

On average, higher incremental lending by World Bank borrowers had a low correlation with increased crisis intensity.²¹ This is not to say that countries most affected by the crisis did not receive incremental lending. In particular, the five countries with the most severe decline in GDP growth (Armenia, Georgia, Latvia, Moldova, and Ukraine) had a 200 percent increase in total borrowing. Rank ordering all borrowing countries in bands or clusters of five based on crisis intensity, the group of five countries with the sharpest GDP decline obtained the fifth largest increment among 22 such five-country groupings. However, countries within the next

two groups in order of severity of GDP decline (including Bulgaria, Croatia, Grenada, Madagascar, Montenegro, St. Lucia, and Romania) had an average increase of just 35 percent in commitment levels. By contrast, incremental lending to five-country bands 5, 6, 8, and 15 exceeded 350 percent (figure 2.1).²²

On average, incremental Bank response was correlated with country share in total Bank lending in the pre-crisis period irrespective of crisis severity.²³ Looking at absolute increase in lending, 18 of 29 top (pre-crisis) borrowers also received the highest absolute incremental commitments during the crisis period. Yet only 3 of these 18 borrowers were highly affected, and some countries with high growth declines did not receive Bank lending in FY09–10 (for instance, Ecuador, Fiji, the Russian Federation, the Slovak Republic, and the Republica Bolivariana de Venezuela).

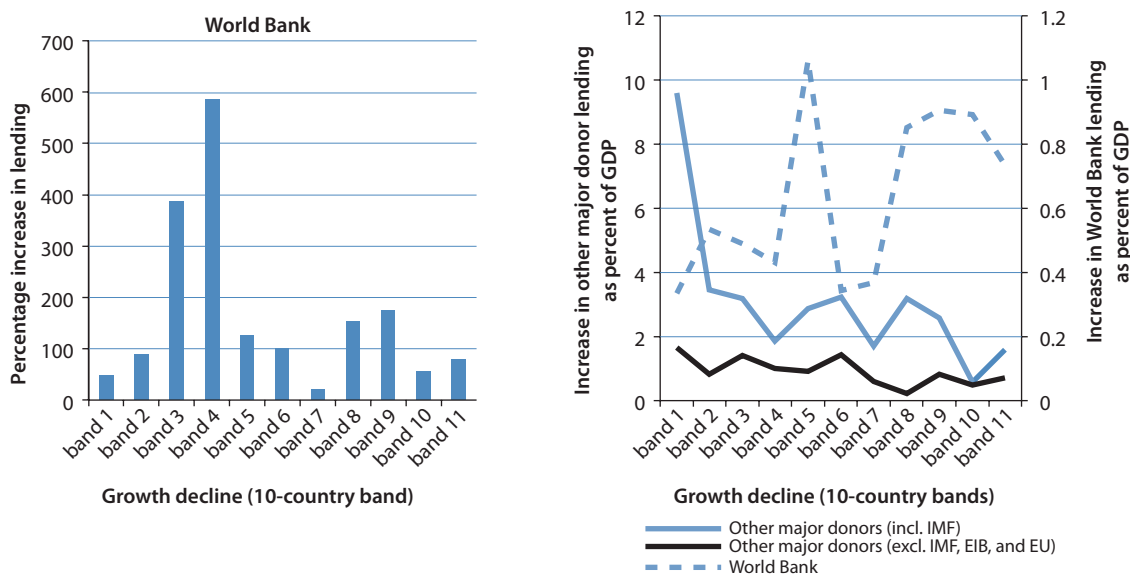
This is not to say that Bank lending to specific countries was unjustified. An important caveat is that lending decisions depend on many factors, in addition to country demand, including country risk and performance, Bank-country relations, and the engagement of other donors. Some of the countries cited above preferred other avenues of funds and did not request support from the Bank. Russia and Venezuela, for example, were large borrowers from the EBRD and IDB, respectively, during the crisis.²⁴ However, countries that did not borrow do not affect the results, as they were

excluded from the regression analysis. Controls have also been added to try to capture some of these factors. There may have been many singular and country-specific factors at work, as discussed further below. The Bank may have wished to broad-base its lending to avoid concentration in regions that may not be large-scale future clients, or to use some measure of equitable distribution in its response to countries outside Europe and Central Asia and Latin America and the Caribbean. There may also have been a need to show solidarity with existing clients and support them during prevailing acute global uncertainties, rewarding better performers and those with closer Bank relationships. At the time, the extent or depth of crisis was difficult to gauge, and the extent to which precautionary borrowing from the Bank may have had a stabilization effect is not easy to gauge either.²⁵

The Bank Relative to Other Major Donors

The analysis also benchmarks the Bank's response against other IFIs and MDBs.²⁶ Excluding the IMF, and also when excluding the EIB and the EU, the increase in lending by other donors to the subsample of all countries that borrowed from the Bank in 2009–10 was lower than the increment by the Bank (127 percent versus 75 percent).²⁷ Yet on average, higher incremental lending by other donors (including or excluding IMF, EIB, EU) was associated with countries with the most severe GDP decline (figure 2.2).²⁸ For instance, the 15 countries with the sharpest GDP decline had some of the highest

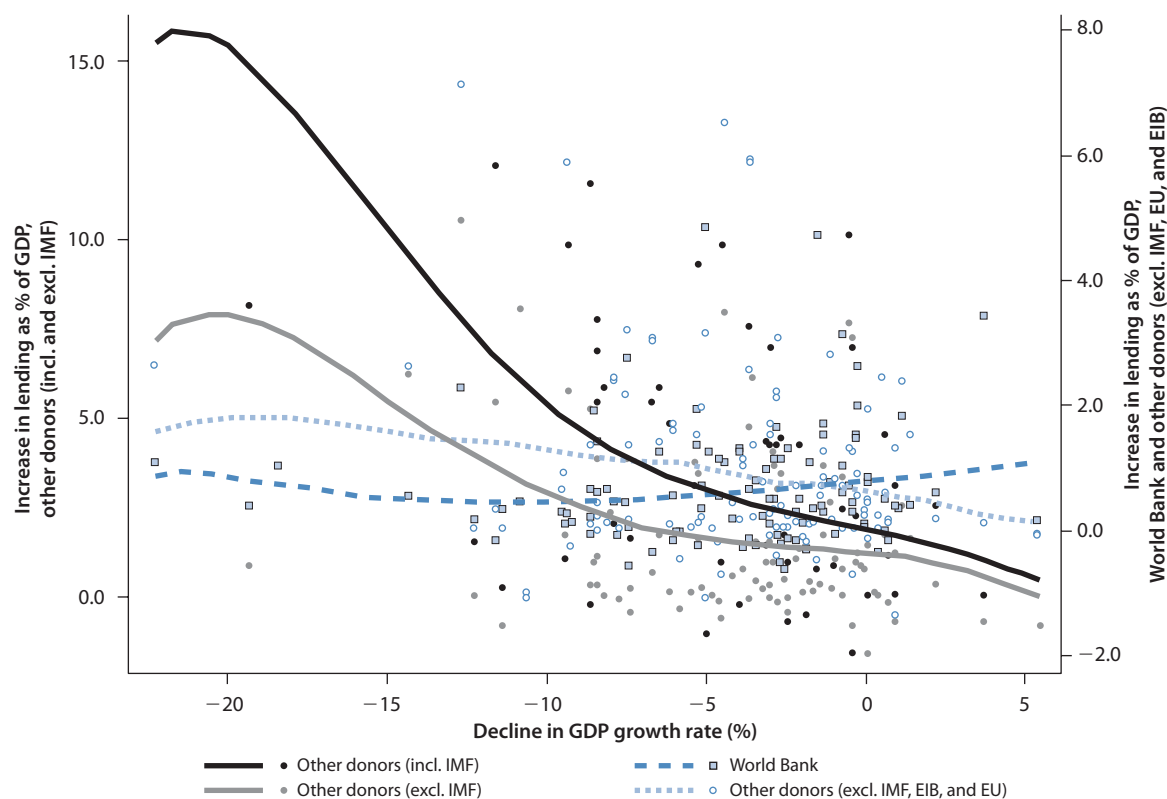
FIGURE 2.1 Incremental Bank Lending Relative to Levels of Crisis: Ten-Country Bands



Source: IEG analysis.

Note: Based on actual World Bank borrowers in FY09–10. Because band 12 had fewer than 10 countries, it is not shown. Other donors include IMF, EU, IFC, MIGA, EBRD, EIB, IDB, ADB, and AfDB, unless specified otherwise. EIB = European Investment Bank; EU = European Union; IMF = International Monetary Fund.

FIGURE 2.2 Incremental Bank Lending Relative to Levels of Crisis (Measured as GDP Decline): Comparisons with Other Donors



Source: IEG analysis.

Note: Based on actual Bank borrowers in FY09–10. Other donors include IMF, EU, IFC, MIGA, EBRD, EIB, IDB, ADB, and AfDB, unless specified otherwise. For explanations, see appendix B, section 2. EIB = European Investment Bank; EU = European Union; GDP = gross domestic product; IMF = International Monetary Fund.

incremental lending of all other major donors (492 percent). Excluding the IMF, EIB, and EU, this group of countries still saw some of the greatest increases in other MDB and IFI donor lending (107 percent).²⁹ By contrast, increased lending by the World Bank for this group of countries was 49 percent.

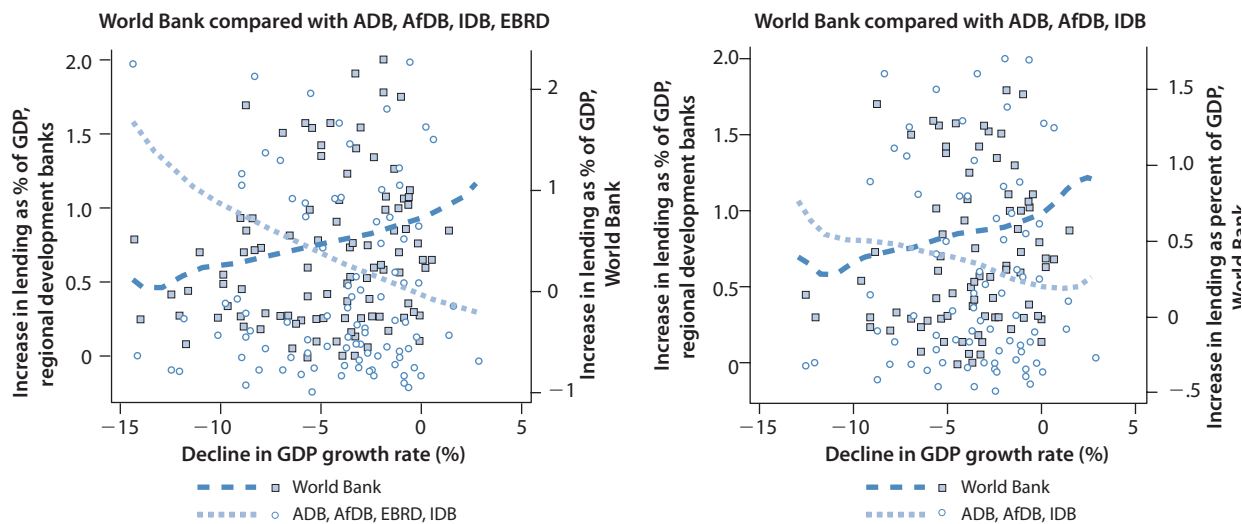
Focusing specifically on IFIs with a mandate more similar to the Bank, for the sample of countries eligible to borrow from the Bank as well as any of the four regional development banks (ADB, AfDB, EBRD, and IDB), annual average lending in the pre-crisis period by the World Bank (\$23.3 billion) was similar to that of all four regional development banks combined (\$22.9 billion). However, the percentage increase in lending during 2009–10 was much higher for the Bank (125 percent) than for the other banks (83 percent); this translates into an increment of \$29 billion in lending commitments for the Bank and \$19 billion for the others. Although the World Bank had a higher increase in lending volumes relative to others, the intensity of Bank response was on average less strongly associated with crisis intensity

than it was for the group of four regional development banks combined (figure 2.3, first panel).³⁰

ADB, AfDB, and IDB have mandates more similar to that of the Bank, whereas EBRD has more in common with IFC. Narrowing the focus further to countries eligible to borrow from these three MDBs (ADB, AfDB and IDB), as well as the World Bank, the aggregate response intensity of these three MDBs remains correlated with crisis intensity. The relationship is much weaker in the case of the Bank (figure 2.3, second panel). For instance, of the top 15 borrowers in this sample with the sharpest crisis, 3 saw a decline in Bank lending, but only 1 saw a decline in regional Bank lending.

Further analysis of each MDB relative to the Bank, in common borrowing countries is provided in appendix B, section 3. That section discusses both similarities and differences in lending patterns between the World Bank and each of the four regional development banks during the crisis period. On average, incremental IDB lending was aligned with overall crisis intensity

FIGURE 2.3 Incremental Bank Lending Compared to Select MDBs



Source: IEG analysis.

Note: Based on sample of countries that borrowed in 2005–10 from ADB, AfDB, and IDB and are also eligible to borrow (or are actually borrowing) from the World Bank in FY09–10. For explanations, see appendix B, section 2. Smoothed lines in the figure are derived from local linear regressions using bandwidth 15 and excluding the two bottom outliers. ADB = Asian Development Bank; AfDB = African Development Bank; EBRD = European Bank for Reconstruction and Development; GDP = gross domestic product; IDB = Inter-American Development Bank; MDB = multilateral development bank.

and positively correlated with the presence of an IMF program. In contrast, Bank lending to the same set of IDB countries was weakly related to crisis severity.³¹ ADB response was, on average, associated with severity of GDP decline, though incremental lending by ADB was lower for countries that had an IMF program.³² A large proportion of incremental lending by the Bank, ADB, and IDB was concentrated in very few borrowers, not all of whom were crisis-affected;³³ however, the magnitude of concentration was much higher for the Bank. Excluding top borrowers that received the largest share of incremental lending, ADB and IDB response was still correlated with crisis intensity. There was no significant relationship between AfDB and World Bank response and crisis intensities; however, on average, both Bank and AfDB responses were highest for the largest economies. Analysis of EBRD alone also indicated responsiveness to crisis intensity.

Multidimensionality of the Crisis and Composite Stress Indicators

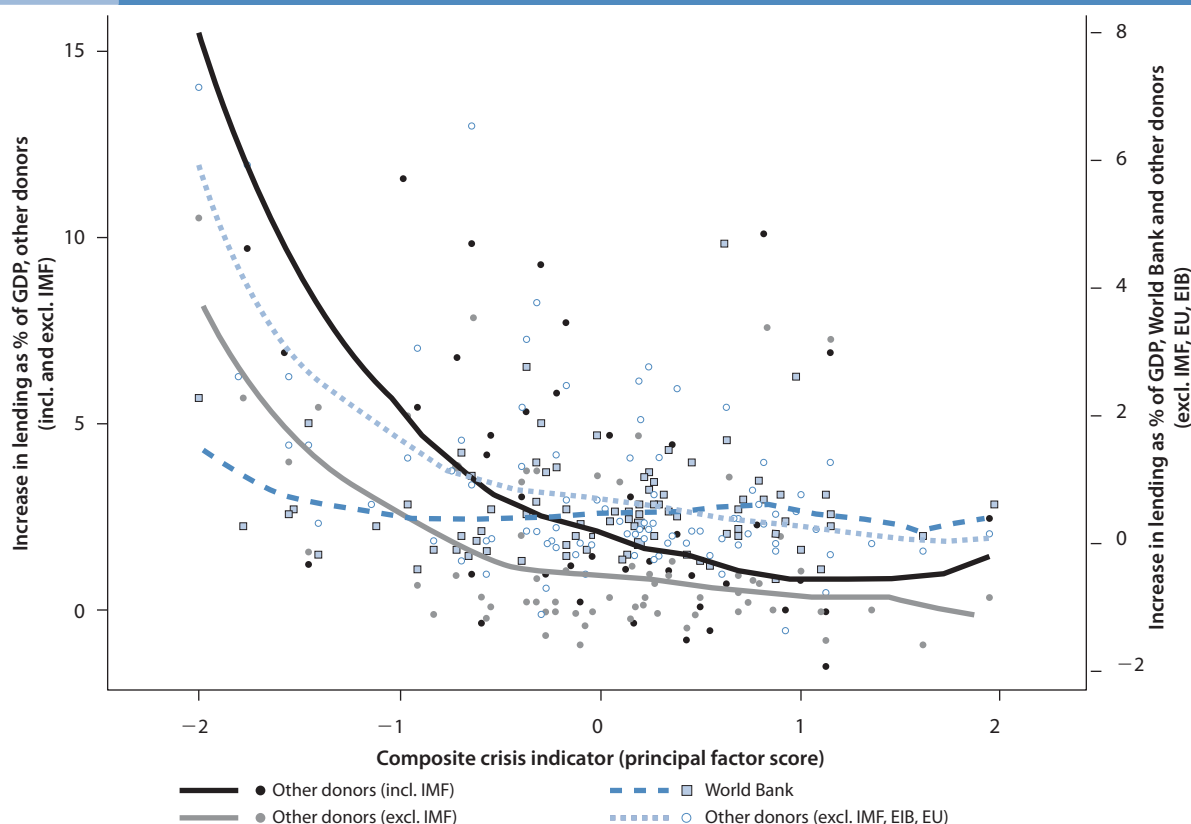
Crises are expressed in many different dimensions—banking crises, export or terms of trade crises, and domestic or sovereign debt crises. The multidimensional nature of the crisis is illustrated by low to moderate correlations between decline in output (real indicator) and other indicators of crisis.³⁴ Moreover, not only can countries be exposed to any of the different types of crisis, but they can also be affected by

multiple crises simultaneously, which is best captured by a composite measure.³⁵

The analysis based on GDP decline is therefore supplemented by an examination of Bank response to other dimensions of crisis, first separately analyzing response to alternative crisis indicators on an individual basis and then using composite crisis indicators. Two alternative composite crisis indicators were examined.³⁶ Results using both composite indicators are broadly similar to those based on GDP decline. Although some countries significantly affected by the crisis had the highest incremental Bank lending, much of the increment was driven by a few countries.³⁷ Excluding these countries, the 10-country bands 3, 5, 6, and 7 had the highest percentage increment in lending, followed, in fifth place (out of 11), by band 1. On average, higher incremental Bank lending had a low correlation with higher crisis intensity (figure 2.4).³⁸

Higher incremental lending by other major donors using multidimensional stress measures was correlated with higher crisis intensity. Even though other major donors share to some extent with the Bank a pattern of concentrated incremental lending to select borrowers, excluding such countries, the country groups more affected by the crisis still had higher incremental lending. Excluding the IMF, EIB, and the EU, a decline in crisis intensity is still broadly associated with a decline in incremental lending by other major donors.³⁹

FIGURE 2.4 Incremental Bank Lending Relative to Levels of Crisis: Composite Indicator Based on Principal Factors



Source: IEG analysis.

Note: Based on Bank borrowers in FY09–10. Other donors include IMF, EU, IFC, MIGA, EBRD, EIB, IDB, ADB, and AfDB, unless specified otherwise. For explanations, see appendix B, section 2.

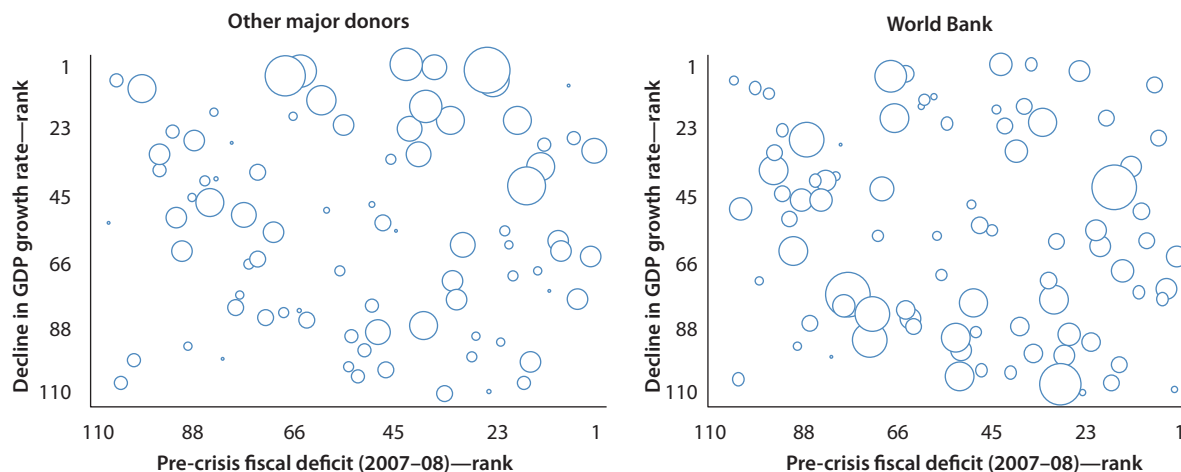
Multidimensionality of the Crisis—Individual Crisis Indicators Other than GDP

Looking at a range of individual crisis indicators (including credit growth or decline, deposit growth declines, or declines in reserves), incremental Bank lending was not strongly correlated with crisis incidence,⁴⁰ whereas incremental lending by other IFIs was better associated with countries with higher crisis severity measures. Indeed, there was higher incremental Bank lending to some crisis-affected countries, concentrated in a handful of countries; excluding them, the correlation of crisis severity and incremental response is more modest. For example, looking at credit growth among the 10-country band with the sharpest such decline (which included, among other countries, Georgia, Latvia, Kazakhstan, and Mongolia), this group had the highest increase in Bank lending. However, the bulk of the incremental lending was to Kazakhstan. Excluding Kazakhstan, the percentage increase in lending to this group declined to 50 percent (from 275 percent).

As in the previous analysis, for most individual indicators, and based on comparable groups of countries, incremental lending by other major donors was higher on average for countries highly affected by the crisis. Even after excluding the IMF, EIB, and EU, incremental lending by other major donors was correlated with several individual crisis indicators. For instance, looking at credit growth, the 20 countries with the sharpest decline had incremental lending of more than 250 percent. Excluding the IMF lending, incremental lending by other major donors declined to 106 percent but was still higher than the increment in Bank lending (94 percent).

Again, looking at changes in private consumption growth rate, much of the increase in Bank lending to affected countries was concentrated not in 10-country band 1, but in bands 2 and 3 (increase of around 500 percent). In fact, of the top 10 countries with the largest incremental borrowing—which accounted for 70 percent of the incremental borrowing in 2009–10—only Kazakhstan was in the 10-country band with sharpest decline in consumption growth rates. Regression analysis also confirms that for several individual

FIGURE 2.5 Resource Allocation Based on Fiscal Vulnerabilities



Source: IEG analysis.

Note: Bubbles represent borrowers receiving incremental lending, scaled as a share of GDP.

indicators of crisis, high incremental lending by major donors, excluding the IMF, EIB, and EU, was associated with higher crisis intensity.

Fiscal Vulnerabilities and Reserves

Finally, the analysis also examines the extent to which the Bank's response was associated with countries' fiscal stress. During the global financial crisis, revenues suffered, yet many countries needed to increase spending to protect the poor and, in those with fiscal space, to cushion the impact of the crisis. In contrast, countries with high debt and fiscal deficits before the crisis would not have had the ability to offset the adverse shock.⁴¹

Other major donors loaned more to countries with higher pre-crisis fiscal deficits.⁴² However, much of this pattern was driven by the IMF. Excluding the IMF, EIB, and EU, other major donors loaned more to countries with high crisis impacts but whose pre-crisis fiscal health was moderate. The World Bank, in contrast, was more apt to increase its lending to countries that had high to moderate pre-crisis fiscal deficits but that were not highly affected by the crisis (figure 2.5).⁴³ For instance, 20 percent of borrowers with high decline in GDP growth as well as high levels of pre-crisis deficit had the lowest incremental lending (83 percent), whereas countries in the fifth quintile saw lending increase by 115 percent. By contrast, incremental lending by other major donors was highest for countries in the first two quintiles (at more than 450 percent). The same was observed for other major donors, excluding the IMF, EIB, and EU, for whom incremental lending was highest for countries in the first two quintiles with the highest growth decline and pre-crisis fiscal deficits at 73 percent.⁴⁴

Countries with a large ratio of short-term debt to total debt are also vulnerable to rollover risk (Baldacci and others 2011), which is therefore an indicator of fiscal stress at the onset of the crisis. Bank lending was not the highest for countries with the highest rollover risk. The quartile with the highest short-term debt to total debt ratio saw only an increase of 0.5 percent of GDP, whereas quartile 1, with the lowest short-term to total debt ratios in 2007, received the highest incremental Bank lending (0.9 percent of GDP). By contrast, other major donors saw the greatest increase occur for countries in the highest short-term debt ratio quartile. For other major donors, excluding the IMF, EIB, and EU, the quartile of countries with the highest short-term to total debt ratio saw the second largest increase, equal to an average of 1 percent of GDP.

Although lower initial deficits and debt create fiscal space for countercyclical policy, higher reserves permit countries to address temporary financing shortfalls. IEG's analysis uses two measures of foreign reserves: reserves over imports and reserves over short-term debt. Using both measures, IEG found that incremental Bank lending was lowest for the 20 percent of the countries with the lowest pre-crisis reserve ratios and highest for countries with moderate reserve ratios. By contrast, incremental lending by other major donors was highest for countries with the weakest reserve positions before the crisis.⁴⁵

However, the extent to which lending can respond to countries' fiscal needs depends also on their absorptive capacity.⁴⁶ Twenty percent of the countries entering the crisis with the lowest fiscal space had the lowest percent increase in Bank lending (62 percent). The greatest increase in incremental Bank lending tended to go to countries with moderate fiscal

space; incremental lending by other major donors (including or excluding the IMF, EIB, and EU) was higher for countries with moderately high fiscal space.⁴⁷

IBRD and IDA

To what extent is the weaker relationship with crisis intensity relative to other major donors driven by IBRD or IDA? As may be expected, because of a combination of factors (country demand, more limited flexibility to reallocate IDA resources among countries because of the IDA resource allocation formula, and the more secondary nature of crisis impact on many IDA countries), incremental IDA lending bore little relationship to crisis severity, whether measured by a composite or specific crisis indicators.⁴⁸ On average, incremental lending was strongly related to the size of pre-crisis volumes of IDA lending, which is consistent with adherence to performance-based allocation criteria.

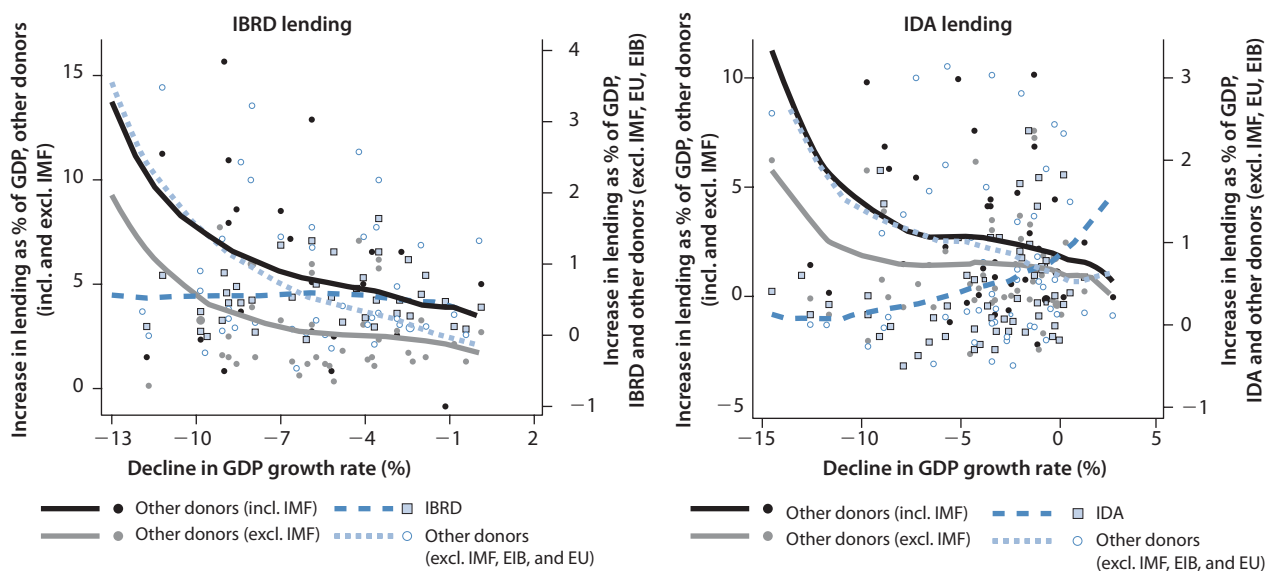
Limitations in the flexibility of IDA allocations do not explain the weak relation between stress and overall resource allocation patterns for the Bank. IEG's analysis shows a weak relationship between incremental IBRD response, taken on its own, and most measures of crisis intensity, including GDP, exports, private consumption and deposit decline, as well as the composite measure of crisis severity (figure 2.6). By contrast, incremental response by other major donors (including or excluding the IMF, EIB, and EU) to the same subset of borrowers had a stronger relationship on average with crisis intensity compared to the World Bank.⁴⁹

Nevertheless, many crisis-affected IBRD borrowers did receive higher incremental IBRD lending. The group of 10 countries with the highest crisis impact had a 250 percent increase in incremental IBRD lending. However, several other countries that were not severely affected by the crisis also received high incremental IBRD lending (for example, Egypt, Indonesia, and Jordan had more than a 300 percent increase in incremental lending but had below-average crisis severity among IBRD borrowers). Of the 10 countries that received the highest increment in IBRD lending (accounting for some 80 percent of all incremental IBRD lending), only Kazakhstan was in the group of 10 countries most affected by the crisis, whereas 7 countries (among them Brazil, India, Indonesia, Poland, and South Africa) whose share in incremental IBRD lending was higher than Kazakhstan (accounting for some 60 percent of incremental IBRD lending) had a median crisis severity rank of 28 (out of 52 IBRD borrowers). However, incremental IBRD response was correlated with high exchange market pressure and credit decline.

IFC and MIGA

Overall measures of crisis intensity also suggest a weak association with incremental IFC lending.⁵⁰ In part, this reflects a strategic focus on IDA countries and Sub-Saharan Africa—areas where IFC's investments increased following the crisis, within an overall decline in investment commitments. In contrast, incremental new guarantees issued among MIGA host countries were correlated with both growth decline

FIGURE 2.6 Relationship between Incremental IBRD and IDA Response and Crisis Intensity



Source: IEG analysis.

Note: Includes countries that received any IBRD or IDA loan in FY09–10. See appendix B, section 2 for details.

and the composite crisis measure, reflecting the increase in MIGA engagement in Europe and Central Asia.

Conclusions

Overall, the analysis does not suggest a strong relationship between Bank lending and crisis intensity. Although the Bank's crisis response may have been a large increment of its previous lending and there was high incremental lending to crisis countries, countries less affected by the crisis also received very high incremental lending. And although reallocations for crisis support did occur and benefitted mostly small clients, the bulk of the lending went to less-affected large borrowers, closely in association with pre-crisis patterns. These findings may reflect the inherent tension between crisis support and risk aversion, and the Bank may have been more risk averse than other donors, with a relatively larger consideration to country risk factors and lending limits.⁵¹ The findings may also reflect the objective to support engagement with closer clients, especially good performers, or to help stabilize countries deemed to be of systemic importance.

As mentioned, several caveats apply. To the extent that crisis lending was coordinated across donors, the incremental lending by the Bank would be influenced by such decisions. The Bank may have taken a different role relative to other donors in crisis-affected countries (for instance, providing support through AAA as opposed to investment or adjustment lending) or boosted its lending to less crisis-affected regions to complement smaller increases by other donors. Bank lending reflects client demand. To the extent that Bank lending was not demanded by highly affected clients, which chose to draw on other resources, the misalignment evident in the data is inevitable. For instance, countries in the Europe and Central Asia Region may have had a preference for dealing with a regional bank, such as EBRD, in contrast to a development institution associated with aid to poor countries, such as the World Bank. Moreover, the Bank may have a legitimate role to play in countries that were secondarily affected, given the more limited presence of other IFIs/MDBs. Given greater assurance of country performance, it could be argued that it was appropriate to extend support during the crisis, even if a country was less affected.

Incremental lending is constrained by resource availability. In the case of IDA countries affected by the crisis, incremental lending (either in absolute terms or change in composition) to them may have been constrained by the resource envelope, as discussed, and by the lack of fungibility of resources across IBRD and IDA. However, all the MDBs have similar constraints on their concessional windows. Moreover, crisis-affected IDA countries did have the flexibility to

increase borrowing through front loading of their resources, and this capacity was increased in December 2009 with the Crisis Response Window.

Finally, major donors considered here are not homogenous—each agency has different allocation policies, business models, instruments, objectives, and crisis response strategies. Moreover, each may have had different perceptions about the evolution and impact of the crisis, given high prevailing uncertainties. There may also have been differential considerations in terms of preemptive precautionary support to provide signals of comfort to markets.⁵² The IMF has a frontline role to play in ensuring macroeconomic stability and liquidity support. The agenda of the Bank, in contrast, is to protect the vulnerable, manage fiscal challenges, and protect development spending in affected countries. This analysis differentiates between other major donor lending with and without the IMF, EIB, and EU, as these are less similar to the Bank. However, MDBs that have similar objectives to the Bank—ADB, IDB, and AfDB—did not always respond the same way.

IBRD Instruments in the Crisis and Implications for the Future

To what extent were patterns of resource allocation affected by demand considerations? For countries that had access to resources from different IFIs, could the differences in terms offered by alternative institutions play a part in their borrowing decisions? To what extent did the instruments of the IFIs and MDBs suggest a proactive response to the crisis? And from the perspective of the Bank, how did the nature of its response in the present crisis reflect its use of available resources for crisis support, while also safeguarding its medium-term ability to provide development support and respond to future crises? The following section first reviews the Bank's lending instruments during the crisis and then compares them with those used by other MDBs and the IMF and discusses implications for crisis lending instruments, as well as the potential impact on the Bank's lending headroom.⁵³

Instruments for Response: IBRD Lending Terms in the Run-Up to the Crisis

The Standard Product—IBRD Flexible Loan

IBRD's lending terms and instruments during the crisis reflect the backdrop of the years just before the crisis, when IBRD countries' borrowing from the World Bank was at a low of around 53 percent of its total lending, compared with around 63 percent in 2001. Prior to the crisis, some large borrowers, such as Mexico, had prepaid their loans, and the Bank was exploring ways to better engage with IBRD clients

and middle-income countries. Proposals for change were consistent with the Bank's strong capital position and headroom and partly reflected IBRD loan prices somewhat above those of other MDBs. As a result, a package of measures aimed at reducing the cost of borrowing for middle-income country clients and sustaining net income transfers to IDA was approved shortly before the crisis.

New IBRD loan terms approved in 2007 recommended the simplification and consolidation of previous products, where maturity and grace periods had varied by product and borrower income levels, into single average/final repayment maturity limits of up to 18/30 years for all borrowers—somewhat longer than other MDBs at the time (typically with a 12- to 25-year loan life), although not dramatically so.⁵⁴ On average, this represented a significant maturity extension of the IBRD product.⁵⁵ The financial impact of extended maturities on capital usage was recognized and deemed appropriate, based on scenarios of IBRD commitment growth of 3 percent per year, especially given the significant capital available at the time and the fact that the Board and management were seeking to use what was viewed as buffer capital.

In parallel, the commitment fee (25 basis points) and waivers were eliminated and the contractual spread was reduced significantly from 75 to 30 basis points. The all-in spread over funding costs was estimated to have been reduced from around 60 to 34 basis points, with a projected change in allocable annual income of about \$43 million on average over the next 10 years. The net spread over the London Interbank Offered Rate (LIBOR), given the Bank's ability to fund itself at below LIBOR, was negative.

As a result, IBRD loans were priced attractively at the onset of the crisis, especially relative to the global constriction in credit and the sharp escalation in sovereign borrowing costs for most IBRD client countries. In November 2008, recognizing increased risk premiums and funding costs, IBRD spreads for fixed-spread loans increased, and thereafter, frequent adjustments were made to reflect market conditions. Maturity-based spreads using a three-tier system were reintroduced for fixed-spread loans in March 2009, and in August 2009 the contractual spread, which had been reduced to 30 basis points in 2007, was increased to 50 basis points. In June 2010, maturity-based premiums were introduced for all IBRD flexible loans, and the Board approved the restoration of new average loan maturity limits to the pre-2008 level of 12 years, with a premium for longer maturities.

One consequence was that average final maturities of fixed-spread DPLs at the time of loan approvals increased—as shown by data below—from 15.3 years in 2007 to 23.8 years by February 2011 (table 2.2). The corresponding maturity of fixed spread investment loans rose from 15.6 years to 20.7 years, and there were similar increases for variable-spread loans.⁵⁶ The grace period also increased from an estimated 5.6 years in 2007 to 8.5 years in 2010 for fixed-spread DPLs and from around 5.5 years in 2007 to 9.5 years in 2011 for variable-spread DPLs.⁵⁷

Actual grace periods for some major borrowers are higher than the average, as shown in table 2.3, as a result of the specific repayment schedule selected. Many countries listed here had adequate foreign exchange reserves and enjoyed good market access.

TABLE 2.2 Maturity of IBRD Loans, 2007–11

Spread type	Average grace period (years)		Average final maturity (years)		Weighted average repayment maturity (years)	
	DPL	IL	DPL	IL	DPL	IL
Fixed						
2007	5.6	5.5	15.3	15.6	11.8	11.1
2008	5.9	5.7	20.2	21.0	14.8	14.8
2009	8.0	6.3	23.6	23.9	17.4	17.1
2010	8.3	7.9	20.2	22.2	12.7	15.5
2011	8.5	6.9	23.8	20.7	14.0	13.3
Variable						
2007	5.5	5.3	19.5	18.2	12.8	12.5
2008	5.3	5.4	18.1	20.6	12.3	14.3
2009	8.0	6.8	22.8	23.0	17.5	16.5
2010	9.0	7.2	23.4	25.3	16.4	17.5
2011	9.5	7.6	21.2	22.2	16.5	16.0

Sources: World Bank Comptrollers department; World Bank Corporate Finance department.
Note: DPL = Development Policy Loan; IL = Investment Loan.

TABLE 2.3 Grace Periods and Maturity for Selected IBRD Crisis Loans, FY09–10

Country	Lending instrument	Approval date	Original commitment (US\$ millions)	Grace period (years)	Maturity (years)	Fiscal year	Spread type
Mexico	DPL	11-May-10	700	17.5	18.0	2010	Variable spread
Mexico	DPL	20-Oct-09	1504	16.5	17.0	2010	Variable spread
Turkey	DPL	23-Mar-10	1300	16.0	19.5	2010	Variable spread
Croatia	DPL	12-Jan-10	297	15.0	15.5	2010	Fixed spread
Turkey	DPL	15-Jun-10	700	14.0	21.5	2010	Variable spread
Peru	DPL	17-Feb-09	330	13.5	21.5	2009	Variable spread
Romania	DPL	16-Jul-09	423	13.0	13.5	2010	Fixed spread
Turkey	DPL	11-Jun-09	800	12.0	23.0	2009	Variable spread
Mexico	DPL	24-Nov-09	1504	11.5	12.0	2010	Variable spread
Indonesia	DPL	3-Mar-09	2000	10.0	24.5	2009	Fixed spread
Vietnam	DPL	22-Dec-09	500	10.0	25.0	2010	Variable spread
Indonesia	DPL	9-Dec-08	750	9.0	24.5	2009	Fixed spread
Indonesia	DPL	24-Sep-09	750	9.0	24.5	2010	Variable spread
Indonesia	DPL	18-Nov-10	600	9.0	24.5	2011	Variable spread
Thailand	DPL	18-Nov-10	1000	8.0	20.0	2011	Variable spread
Mexico	IL	25-Mar-10	1250	17.5	18.0	2010	Variable spread
Mexico	IL	9-Nov-10	1250	16.5	17.0	2011	Variable spread
Mexico	IL	9-Apr-09	1504	16.0	16.5	2009	Variable spread
Philippines	IL	17-Nov-09	405	10.0	25.0	2010	Variable spread
Indonesia	IL	30-Mar-10	785	9.0	24.5	2010	Variable spread
Colombia	IL	18-Dec-08	637	9.0	28.0	2009	Fixed spread
Indonesia	IL	8-Jun-10	500	9.0	24.5	2010	Variable spread

Source: World Bank.

Note: DPL = Development Policy Loan; IL = Investment Lending.

The decision to introduce maturity-based pricing was appropriate in the light of market considerations. Admittedly the need to increase prices at the onset of the crisis was not obvious, given IBRD's buffer capital, but one question is the extent to which there is enough flexibility in the pricing of IBRD products so that the changes could have been reintroduced in a more timely way. IBRD pricing changes—even in 2009—were difficult.⁵⁸ Another question that arises is the advisability of crisis-specific lending instruments with shorter maximum maturities, discussed further below.

The Deferred Drawdown Option and the Enhanced DPL DDO

Parallel to pricing changes for IBRD products before the crisis, the Bank also reviewed its terms for the DDO, which was first introduced in 2001; the revisions led to its considerably increased use during the crisis (World Bank 2008c). When originally introduced, the DDO was intended as a risk management tool in IBRD countries enjoying good, yet unsteady, financial market access. The DDO feature gives an IBRD borrower the option of deferring disbursements under a DPL for up to three years (renewable for an additional three years with Board approval), provided its overall development policy program implementation and macroeconomic policy framework remain adequate.

Under Bank policy prior to 2008, compliance with program implementation and the adequacy of the macroeconomic framework were monitored at inception, during the drawdown period, and when the Bank received a borrower's request for a drawdown. The price included a commitment fee premium over standard DPLs of 0.25 percent per annum and an interest rate premium if maturities were elected to be extended. Uptake was low—only two were issued in the years up to 2008—because of both the premium and the perception by borrowers that funds may not be available when needed, due to the review process.

The main changes introduced in 2008 were, first, streamlining the withdrawal protocols to reduce uncertainties. Drawdown would be automatically permitted unless the borrower had received prior notification from the Bank that one or more drawdown conditions were not met. Second, pricing was adjusted to reflect the simplified pricing structure of IBRD loans approved in September 2007, which fully aligned DDO and DPL pricing, giving borrowers the choice of a regular DPL or a DPL-DDO without regard to pricing considerations. The interest rate premium of 25 basis points applicable to existing DPL-DDOs with an extended maturity was eliminated, and repayment terms commenced at the time of disbursement.

TABLE 2.4 Amounts and Undisbursed Balances for IBRD DPL-DDOs, 2008–10

Country	Spread type	DDO type	Loan currency	Loan amount (million currency units)	Approval date	Undisbursed balance (million CCY)
Colombia	Fix	DPL	USD	550.0	4/8/2008	–
Mexico	Fix	DPL	USD	501.3	4/9/2008	–
Peru	Fix	DPL	USD	370.0	8/5/2008	150
Costa Rica	Fix	CAT	USD	65.0	9/16/2008	40
Colombia	Fix	CAT	USD	150.0	12/18/2008	–
Peru	Fix	DPL	USD	330.0	12/18/2008	330
Indonesia	Fix	DPL	USD	2000.0	3/3/2009	1,995
Guatemala	Fix	CAT	USD	85.0	4/14/2009	–
Costa Rica	Fix	DPL	USD	500.0	4/30/2009	–
Bulgaria	Var	DPL	EUR	101.7	11/4/2008	–
Uruguay	Var	DPL	USD	400.0	2/3/2009	–
Peru	Var	DPL	USD	330.0	4/9/2009	310
Peru	Var	DPL	USD	330.0	2/17/2009	310
Mauritius	Var	DPL	USD	30.0	3/31/2009	–
Mauritius	Var	DPL	EUR	22.7	3/31/2009	–
Mauritius	Var	DPL	GBP	28.0	3/31/2009	–
Peru	Var	CAT	USD	100.0	12/9/2010	100

Source: World Bank.

Note: Undisbursed balances as of January 2011. CAT = catastrophic risk DDO; CCY = current calendar year; DPL = Development Policy Loan; EUR = euro; GBP = British pound; USD = U.S. dollar.

With these revisions, the DDO rose rapidly in popularity during the crisis. Seventeen DPL-DDOs were extended between April 2008 and December 2009, for a total of almost \$6 billion, and more than half (\$3.2 billion) have not been disbursed (table 2.4). The DDO was used primarily in the Latin America and the Caribbean Region, although Indonesia, Bulgaria, and Mauritius were also users. It served as a valuable addition to the Bank's instruments during the crisis, as it provided a signal of support to markets, though drawdown was not essential if markets stabilized (if DDOs are cancelled, more IBRD capital is made available for other purposes). It also provided a vehicle for engagement in policy in countries that were increasingly able to turn to market-based funding. Wider use, in other countries with strong economic fundamentals, could have been encouraged.

One issue with the DPL-DDO was the capital implication. DDOs have capital allocated to them, but they do not generate income until they are drawn down. In August 2009, the DDO front-end fee was increased to 75 basis points, and a 50 basis-point renewal fee was added, in acknowledgement of these factors.

The Special Development Policy Lending Option

The Bank also had provisions for a specific crisis instrument, the Special Development Policy Loan, to be extended on an exceptional basis to IBRD-eligible countries that are in or are approaching crisis and that have urgent and extraordinary financing needs. It was little used during the crisis. The revised policy for Special Development Policy Loans did not come into effect until September 2009 and was eventually used for only one loan, to Latvia, although two further loans (to Latvia and Hungary) were extended under the terms of Special Development Policy Loans (World Bank 2009e). Delays in the formulation of the new policy may have been one factor that contributed to Hungary's eventual non-use of its loan; pricing relative to Hungary's renewed market access may have been another.

The Bank first introduced Emergency Structural Adjustment Lending in October 1998, based on its experience in the Asian crisis. Although it was not intended to provide liquidity support, it recognized market stabilization as a goal and provided a vehicle for the Bank to extend core lending while protecting its risk-bearing capacity. Qualifying crisis lending to IBRD-eligible countries had to have substantial structural and social dimensions. Bank participation was to be part of an international support package that included an IMF program. The Emergency Structural Adjustment Lending, later called Special Structural Adjustment Lending, had a maturity of 5 years, a grace period of 3 years, and a minimum loan spread of 400 basis points, taking into account the IMF's then principal crisis instrument, the Supplementary Reserve Facility.

The Special Structural Adjustment Lending was used in Argentina and Brazil in 1998, in Turkey in 2001, and in Uruguay in 2002. With the introduction of the Bank's new DPL policy in 2004, the Bank retained the option of using Special Development Policy Loans. Previous features applied, but new DPL guidelines laid out the CAS envelope as a benchmark for exceptional lending, strengthened the IMF partnership (to a *disbursing* IMF program), and standardized terms, eliminating the previous requirement of specific terms, to be provided by the Treasury.

The new Special Development Policy Loan policy of 2009 eliminated the linkage between these loans and the CAS lending envelope and reintroduced standardized pricing, albeit at lower rates. Special Development Policy Loans had a grace period of 3–5 years with a final maturity of 5–10 years; a minimum fixed spread over LIBOR of 200 basis points; and a front-end fee of 100 basis points, broadly aligned with the IMF's higher paid tranches.⁵⁹

Eventually, the Special Development Policy Loan was used not for all IBRD-eligible countries that met the criteria of internationally coordinated rescues and severe crisis effects, but only for graduated countries, which posed a particular problem due to the absence of guidelines for lending terms for IBRD graduates.⁶⁰ These experiences underscore the value of formulating an explicit policy toward IBRD graduates that can be in place before the next crisis.

Another question is whether instruments that share some of the present and previous Special Development Policy Loan features, including the pricing premium and shorter maturity for loans considerably beyond a CAS envelope, could be used also for countries that faced stabilization needs despite strong underlying reserve positions, where Bank loans were processed without a disbursing IMF program. Many large loans during the present crisis fell in this category, as shown by the analysis in subsequent chapters. Large crisis loans to IBRD countries were not accompanied by disbursing IMF programs and went to some countries with high reserves—Brazil, Thailand, and Indonesia are examples—that did not face crisis-related fiscal and financial difficulties. Premiums for crisis lending, including shorter maturities and somewhat higher terms, were a feature of some loans by other IFIs and MDBs.

Lending Instruments: Other IFIs and MDBs

The IMF

Coincident with the crisis period, in March 2009, the IMF announced a major overhaul of its lending framework, including the introduction of more flexible precautionary arrangements, increased access, and streamlined conditionality.

Under the 2009 framework, the Fund's very best performers could access the zero conditionality Flexible Credit Line (FCL)—as Colombia, Mexico, and Poland did during the crisis.⁶¹ Other instruments were available for countries with some “vulnerabilities”—the Precautionary Credit Line and the High-Access Precautionary Stand-By Arrangement. Normal annual access was doubled in May 2009, from 100 percent of a member country's quota to 200 percent, in line with the Fund's enhanced financial capacity and to give confidence to countries that adequate resources would be accessible to them to meet their financing needs.⁶² Its cost structures were adapted for high access and precautionary lending (IMF 2009c, 2009d).

Its Stand-By Arrangement remained its standard vehicle of support during this period and its basic “rate of charge” depended on the SDR interest rate and the prevalent margin. Surcharges were maintained, however, that depended on the level of credit outstanding and the time period held, to help mitigate credit risk and to enable the Fund to accumulate precautionary balances while encouraging timely repayment. Countries paid a rate of 1 percent over the prevailing SDR rate for up to 200 percent of quota; loans greater than 300 percent of the quota carried a surcharge of 200 basis points, paid on the amount of credit outstanding above 300 percent of quota. If credit remains above 300 percent of quota after three years, the surcharge rises to 300 basis points. Revisions to the surcharge schedule increased price incentives to discourage large and prolonged use of IMF resources. The terms of IMF's facilities are generally short—five years, for a Stand-By Arrangement, consisting of a two-year drawdown and three-year payment, and ten years for Extended Fund Facilities, with repayments in the latter part of the period.⁶³

During the crisis, a number of countries borrowed considerably above quota limits and, therefore, effectively paid higher average rates than the base rate. Not only do higher rates help reflect risks and costs of lenders; they also limit potential moral hazard of borrowers obtaining loans they may not really need for crisis management.

The IMF's Flexible Credit Line shares some of the features of the Bank's DPL-DDO—there is flexibility to draw or to treat the credit line as precautionary. Repurchase periods of up to five years are provided for, but there is an expectation that the Fund will be repaid as soon as members' reserve positions allow it. FCLs provided to Colombia, Mexico, and Poland were not drawn, in contrast to Bank loans, although Colombia also took a DPL-DDO that was not drawn. Bank DPL-DDOs that are drawn are subject to the same maturity conditions as other DPLs. The IMF's Precautionary Credit Line, designed to meet flexibly the liquidity needs of mem-

ber countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the FCL, was also for a one- to two-year period.⁶⁴

IDB and ADB

IBRD loans during the crisis initially were broadly comparable to the **IDB**, but they became relatively cheaper from mid-2009.⁶⁵ IDB's spread on its standard variable-spread product, like that of IBRD, was at 30 basis points just before the crisis. However, in June 2009, IDB raised its spread to 95 basis points over LIBOR, in response to prevailing market conditions and in contrast to IBRD's contractual spread increase of 50 basis points from the third quarter of 2009. A unique feature of the IDB is that the higher spread also applies to existing loan balances. This helped the IDB maintain a steady financial position despite the crisis.⁶⁶ Although this pricing feature protects IDB's income during periods of countercyclical lending, it also implies more volatility for borrowers, though with the possibility for offsetting gains during recovery as spreads are reduced. It should be noted that these moves also reflect structural difference in IDB pricing compared to IBRD. IDB adopts an approach more like that of a credit cooperative, with low pricing during good times and high pricing during bad times, based on the assurance that higher revenues will strengthen IDB's financial capacity.

By contrast, IBRD borrowers do not see the same linkage between higher prices and stronger lending capacity because of the potential for higher revenues to be used up for increasing income transfers to IDA. IBRD borrowers also expressed a desire for more predictable and less volatile loan pricing; hence the 2007 middle-income country reforms did away with a similar “annual waiver” feature for IBRD loans.

IDB had also had a \$3 billion emergency facility, used together with IBRD and IMF in the Argentina and Brazil crises earlier in the decade, that was similarly priced at LIBOR+400, with a five-year maturity.⁶⁷ Unused in the run-up to the global crisis, it was refashioned from a sovereign lending facility to a private sector liquidity facility (Liquidity Program for Growth Sustainability) of \$3 billion, for banks in its member countries to on-lend to private clients. Its high lending rates remained unchanged, however (IDB 2008). The program was designed to provide liquidity of up to \$500 million per country to regulated financial institutions facing reduced access to foreign credit lines and interbank credit, so that they in turn could provide trade credit lines to exporters and producers for the exporters in domestic markets and maintain firms' access to working capital. Five loans totaling \$2 billion were quickly approved in 2008–09, and because of the cap on size, the program was used mostly for smaller countries (Costa Rica, the Dominican Republic, El Salvador,

Jamaica, and Panama), but little was disbursed, likely due to the high rate. The program was terminated in December 2009.

Estimates of ADB crisis-period assistance include in particular around \$5 billion for 24 crisis-related loans and grants in 2009–10 (with approvals of \$2.5 billion from its Countercyclical Support Facility—a special crisis-related program) and disbursements of \$1.8 billion under its crisis-related Trade Finance Facilitation Program.⁶⁸ The ADB's standard product is a similar 6-month LIBOR-based floating rate lending product, and at the onset of the crisis it was priced lower than IBRD lending, with a contractual spread of 20 basis points for sovereign lending (compared with 30 at IBRD). This rate remained in force until the end of June 2010. From July 2010, the contractual spread was increased to 40 basis points, to be phased in over two years.

The ADB's CSF, also an adaptation of its pre-existing Special Program Loan introduced in the wake of the East Asia Crisis, was designed to provide short-term, fast-disbursing loans to supplement fiscal needs during the crisis. Its pricing was similar to the Bank's Special Development Policy Loan, a rate of 200 basis points over LIBOR, a 5-year maturity, including a 3-year grace period, and slightly lower commitment charges of 75 basis points (ADB 2009). The ADB was concerned about the financial impact of crisis lending on its headroom and return on equity. Therefore, it charged a rate that would enable it to absorb both operational and liquidity risks. One significant difference between the CSF and the Bank's Special Development Policy Loan was that the CSF did not require an IMF program to be in place. The CSF was eventually extended to six countries—Bangladesh, Indonesia, Kazakhstan, Philippines, Tajikistan, and Vietnam—none of which had IMF programs. Results of ADB's evaluation suggest that the large size and short maturity could lead to some debt rollover problems for one client—Bangladesh.

The AfDB, like the ADB, also introduced, in 2009, a new crisis support instrument, with \$1.5 billion in funding—the Emergency Liquidity Facility—similar to the ADB's CSF and to the Bank's Special Development Policy Loan (five-year maturity, three-year grace period) with a higher spread for sovereign borrowers (250 basis points) and a front-end fee (0.5 percent). This facility also incorporated some of the features of the IDB's crisis instrument—the option of non-sovereign lending. Only one Emergency Liquidity Facility operation was approved. IBRD pricing was close to, though somewhat lower than, AfDB's for the standard variable spread loans.

Finally, although the Bank, IDB, and ADB do not use risk-based pricing, interest rate charges by the EIB range from 20

to 60 basis points, depending on the credit risk of the borrower, with 20 basis points for sovereign borrowers and 60 for corporate borrowers.

Table 2.5 provides an idea of the relative pricing of the loan products of the World Bank, IMF, and IDB. Over the period illustrated, the composition of the Bank's loans changed from mostly fixed spread to variable spread. Comparing the variable-spread loan rate with the IMF's basic rate of SDR+1 percent, IBRD rates were consistently lower. IBRD fixed-spread loans became more expensive as the crisis proceeded. However, the proportion of variable-spread loans in total loans increased from 35 percent to more than 80 percent over this period. These comparisons are suggestive only, however, and are subject to various caveats.⁶⁹ Further, the IMF had a surcharge on borrowing above the access limit. Surcharges could go up to SDR+3 percent for amounts borrowed over 300 percent of quota. Some countries, such as Hungary, Latvia, Pakistan, and Ukraine, borrowed at some 500–700 percent above quota and would therefore have paid a surcharge on a part of their borrowing.

Comparing IBRD and IDB rates, the Bank does not appear to have had a price advantage in the earliest months of the crisis, but after the IDB contractual spread increase, IBRD rates appear more favorable—and IDB's somewhat shorter maturities (20 years at most) would also raise the relative attractiveness of IBRD.⁷⁰

Although such comparisons are subject to caveats, they suggest that IBRD pricing for its standard products was lower than that of the standard products of the IMF and IDB during much of the crisis period. Moreover, the IMF added a surcharge on above-quota borrowing. Midway through the crisis period, IDB significantly raised the contractual spread on its regular loan and made it applicable to outstanding loan balances. ADB made extensive use of instruments that were priced higher than its standard products, with very short maturities. Although the Bank had a provision for a Special Development Policy Loan, conditions for its use were not spelled out until late in the crisis; those conditions were very specific, so the instrument was little used, and the bulk of IBRD lending was at its relatively favorable normal rates.

IBRD may have been in a better position to charge less than other IFIs and MDBs because of its initially comfortable capital position and because its mandate sets the basis for the pass-through pricing model, which is also used by other MDBs. Yet attractive IBRD pricing may have been one factor underlying its high levels of disbursement and may have led to risks of countries' borrowing even if not essential for crisis.

TABLE 2.5 Indicative Comparisons of Lending Terms during the Crisis Period: IBRD, IMF, and IDB

Period	IBRD loans		IBRD lending rates		IMF		IBRD FSL -IMF (SDR +1%)	IBRD VSL -IMF (SDR +1%)	IDB	
	No. VSLs/ total no. of loans in period	Proportion of VSLs in numbers of loans	Fixed-spread loan	Variable-spread loan	SDR+1%	SDR+2%			All in lending rate (over 3-month LIBOR)	IBRD VSL - IDB VSL
2008Q1	16/46	0.35	3.39	3.31	3.93	4.93	-0.54	-0.62		
2008Q2	9/23	0.39	3.38	3.29	3.81	4.81	-0.43	-0.51	2.62	0.7
2008Q3	9/27	0.33	2.87	2.79	3.45	4.45	-0.58	-0.66	2.85	-0.1
2008Q4	10/39	0.26	2.98	2.67	2.54	3.54	0.44	0.13	4.82	-2.1
2009Q1	30/41	0.73	2.31	1.25	1.40	2.40	0.91	-0.15	1.16	0.1
2009Q2	26/33	0.79	2.26	1.20	1.44	2.44	0.82	-0.24	1.24	0.0
2009Q3	37/50	0.74	2.11	1.21	1.34	2.34	0.77	-0.13	1.42	-0.2
2009Q4	21/38	0.55	2.21	1.08	1.34	2.34	0.87	-0.27	1.32	-0.2
2010Q1	28/35	0.80	1.60	0.83	1.25	2.25	0.34	-0.42	1.23	-0.4
2010Q2	41/48	0.85	1.61	0.85	1.24	2.24	0.37	-0.39	1.31	-0.5
2010Q3	37/46	0.80	1.68	0.93	1.32	2.32	0.36	-0.39	1.51	-0.6
2010Q4	26/32	0.81	1.62	0.90	1.31	2.31	0.31	-0.41		

Sources: World Bank data; IDB website, and IMF 2009b.

Note: IBRD lending rates are based on the prevailing contractual spread over six-month LIBOR adjusted for market risk premia and IBRD funding costs (not inclusive of the capitalization of the front end fee). IMF charge rates, although based on the SDR rate plus premium, also have adjustments. Therefore, these rates are approximate. SDR borrowers are also subject to cross-currency risks of the euro, British pound, and yen. FSL = fixed-spread loans; IBRD = International Bank for Reconstruction and Development; IDB = Inter-American Development Bank; IMF = International Monetary Fund; LIBOR = London Interbank Offered Rate; SDR = Special Drawing Rights; VSL = variable-spread loan.

The Bank's Financial Position after the Crisis

Selected operational and financial information on the World Bank during 2005–10 is shown in table 2.6. During the run-up to the crisis, 2005–08, the volume of Bank operations declined because of slow growth in borrowing by IBRD clients and prepayments by some clients that had been able to accumulate large foreign exchange reserves. Nonetheless, its

financial performance was strong. The Bank's allocable net income rose substantially, from \$1.3 billion in 2005 to \$2.1 billion in 2008, and its return on equity rose from 3.8 percent to 6.1 percent.

After the outbreak of the crisis, as the Bank's operations expanded rapidly between 2008 and 2010, assets rose by \$50 billion, and outstanding loans rose by \$20 billion. During

TABLE 2.6 World Bank: Selected Operational and Financial Information, 2005–10 (US\$ billions)

	2005	2006	2007	2008	2009	2010
Total assets ^a	222.0	212.3	207.9	233.3	275.4	283.0
Loans outstanding ^a	104.4	103.0	97.8	99.0	105.7	120.1
Usable paid-in capital ^a	9.0	9.1	9.3	9.9	9.9	10.3
Usable equity ^a	38.4	32.9	36.3	38.7	41.3	37.6
Net operating income ^a	1.3	1.7	1.7	2.3	0.6	0.8
(Allocable net income) ^b	1.3	1.7	1.6	2.1	0.5	0.8
Return on total assets ^a (%)	0.6	0.8	0.8	1.0	0.2	0.3
Return on equity ^a (%)	3.8	4.9	4.8	6.1	1.4	2.0
Interest coverage ratio ^a (%)	1.4	1.4	1.4	1.6	1.2	1.5

Sources: a. IBRD Credit Analysis; Moody's Investor Service February 28, 2011. b. World Bank data.

Note: Net income, on a reported or fair value basis, follows conventional reporting methods but is less appropriate for the Bank than its allocable net income, because of mixed attributions associated with derivatives accounting.

the same period, there was a marked decline in income and return on equity (table 2.6).⁷¹

Several factors explain the decline in key financial ratios. Interest rates earned on the Bank's equity suffered exogenous and sharp declines during the crisis (2008–10). Risk management measures introduced by IBRD in 2008 to protect its income and reduce the sensitivity of its income to interest rate changes income prevented losses in subsequent years,⁷² and sound interest rate risk management strategies were a significant factor in limiting the decline in overall income, given the large share of total income from equity earnings. The 2007 price reduction also contributed to a decline in income from loan spreads in recent years.⁷³ Transfers to IDA limit the Bank's ability to accumulate reserves and increase equity. And the cost of borrowing could also increase in the event of deterioration in the standing of major shareholders. These factors together could affect the ability of the Bank to respond to the next crisis—in particular because the recent capital increase is mostly in the form of callable capital, with a total paid-in capital increase of around \$5 billion to be received over the next five years, and therefore its immediate impact is not large (table 2.7).

Partly because of the rapid increase in lending operations during 2008–10 with only a limited increase in capital and reserves, there has been a decline in the Bank's equity-to-loan ratio—from 37.5 percent at the end of June 2008 to 34.5 percent a year later and 28.5 percent at the end of FY10—and a consequent decline in the Bank's ability to add risk assets. Although these changes reflect deliberate and considered choices by management and shareholders and the Bank remains above the strategic capital adequacy range, capital adequacy is projected to decline further until FY15–17 and to increase thereafter. Loan loss provisions as a proportion of the portfolio declined in FY10 compared with FY09, and

IBRD faces increased credit risk.⁷⁴ Although the Bank enjoys a much higher volume of callable capital, rating agencies are increasingly focusing on usable capital, given the recent global financial situation (Standard and Poor's 2009).

In addition, higher portfolio concentration in lending for a future crisis could constrain lending because of exposure limits. By some measures, concentration has increased already: over the period FY09–10, 37 percent of lending went to five borrowers, 55 percent to the top 10 borrowers.⁷⁵ Outstanding loans to five borrowers—China, Brazil, India, Mexico, and Turkey—amounted to 150 percent of usable capital of the Bank. Concentration of risk in the IBRD portfolio is handled by single borrower limits, and when reviewed for FY11, five countries were subject to those limits.⁷⁶ A decision was made to raise the prevailing limit of \$16.5 billion for a single country, India (to \$17.5 billion). Although on the basis of risk considerations, an across-the-board increase for all single borrower limit-eligible countries would have been possible, this would have impinged on available headroom for those countries that were not eligible. Meanwhile, the Bank is exploring measures to manage exposure in single borrower limit-constrained countries—including prepayments, loan sales, and the use of special private placement bonds—that will ease its ability to manage these concerns yet maintain its development support.

At the onset of the crisis, there was a perception among shareholders that IBRD's capital position was stronger than needed and, consequently, that the decline in its financial ratios to support increased lending was appropriate to its development focus, and that, if a future crisis were to arise, the Bank could request further capital. However, the significant change in the Bank's financial position raises the question of what adequate levels of capital may be to enable the Bank to respond to the next crisis.

TABLE 2.7 IFIs and MDBs: Paid-In Portion of Announced Capital Increases, 2009–10

Financial institution	Announced increase (billions)	Amount to be paid in by shareholders (billions)	% to be paid in	% increase in shareholders' equity
IBRD	\$86.2	\$5.1	6	14
Asian Development Bank	\$110	\$4.4	4	29
Inter-American Development Bank	\$70	\$1.7	2	8
African Development Bank ^a	SDR43.6	To be determined	6	N.A.
European Investment Bank ^a	€67	0	0	0
EBRD	€10	0	0	0

Source: Standard and Poor's 2010.

Note IFI = international financial institution; MDB = multilateral development bank; N.A. = Not available; SDR = Special Drawing Rights.

a. Paid-in capital will be 6 percent of the amount subscribed.

3

World Bank Financial Sector Support to Governments

More than \$28 billion of the Bank's lending during FY09–10 was based on operations with some financial sector content. Yet only a handful of Bank borrowers experienced a crisis involving insolvency or severely distressed financial institutions. In a larger number of countries, the withdrawal of liquidity did not threaten their fundamentally strong financial institutions, but it did strain their ability to extend credit and increased their nonperforming loans. In most countries, financial stress was manifest through increasing spreads on borrowing and precipitous stock market declines. Although termed a financial crisis, the fiscal consequences felt by governments—faced with rising borrowing costs and declining revenues—were in many cases more acute than effects on financial institutions or markets.

This chapter first examines the portfolio of Bank projects with financial sector content and reviews their crisis relevance and the distribution of support across countries relative to their financial stress. Next, it evaluates the extent to which the Bank had the knowledge base to intervene effectively at the onset of the crisis. Third, it reviews the extent to which interventions were adapted to the type of financial sector difficulties encountered, in terms of design, choice of instruments, and contribution relative to partners. Finally, it examines Bank effectiveness, in terms of early outcomes, and the likelihood of reform sustainability. DPLs are analyzed separately from lines of credit, which constituted a third of Bank financial sector lending during the crisis.

Overall Findings

Most of the Bank's lending during the crisis went to countries suffering a moderate degree of economic and financial stress; this was especially true of the financial sector. Although 23 percent of total Bank commitments were made to the most highly affected countries, 56 percent went to the second tier of countries. Financial sector assistance was even more narrowly targeted—70 percent of commitments went to the countries suffering moderate stress. Although a few loans focused on financial sector issues, most operations included several sectors and a large part of the operation's content was not

directly relevant to the crisis. The thematic content of lending was not necessarily focused on the crisis, and there was negligible difference in thematic content between “crisis” and “non-crisis” financial sector lending (appendix table C.7). Attention to issues of financial sector depth and access to finance were prominent in the Bank's crisis response. One reason could be that stress in some countries was manifest primarily through credit constraints, but another could be that few countries felt threatened by a severe financial crisis, and most financial access lending was focused on the medium-term agenda.

The Bank's policy loans in support of financial reform in most deeply affected crisis countries contained relevant conditionality focused on crisis-related themes and contributed to stabilization (box 3.1). But the Bank's role in virtually all such cases must be viewed in light of its partnership in a consortium, and its financial role was small—5–10 percent at best. The Bank's presence was nevertheless taken as a useful signal. Going forward, the limited size of Bank support could hamper the quality of its dialogue. IMF conditionality tended to cover the most immediate issues, and Bank agreements in crisis countries focused on more medium-term issues. Despite the largely appropriate focus of Bank interventions, sustainability has been mixed. Some reforms were successful, but deeper structural issues have persisted. Improvement in global economic conditions has contributed to a decline in political commitment to reform.

A number of Bank loans to crisis-affected countries were made available several months after the peak of the liquidity phase of the crisis. Furthermore, Bank disbursements came considerably later than funds from other sources, notably the IMF and, in Europe and Central Asia, the EU. One reason for delay in some Europe and Central Asia countries was the lack of a clear policy for graduated countries.

The Bank was often the sole player in less-affected countries, and their difficulties were compounded in many cases by a large credit expansion just before the crisis. In the absence of IMF Stand-By Arrangements the Bank was the chief provider of advice and financial support. The actions supported by these multisector DPLs were often general, incremental, and medium term in orientation rather than crisis related. Crisis conditionality was not easily distinguishable from financial sector conditionality in noncrisis situations. Occasionally, significant financial sector issues were neglected. This reflected the speed with which these operations were prepared as well as the general soundness of these countries' financial systems. Staff constraints at the onset of the crisis may also have been a factor.

Although general and incremental, some reforms associated with loans to less-distressed countries were useful, if fragmented, as part of a medium-term agenda, and some have reasonable prospects for sustainability.

Fiscal support and signals of market support were arguably the Bank's major contributions in these operations; the sectoral vehicle (financial, fiscal, or other) was probably a lesser issue. Programs were based on areas that lent themselves to swift preparation, often through prior or ongoing engagement.

Bank lending through Financial Intermediary Loans (FILs) during the crisis was intended to directly address the credit needs of vulnerable market agents. However, few FILs were able to disburse rapidly, although loans to experienced institutions, repeat loans, and loans to exporters did better. Of the 77 financial sector loans during this period with some crisis content, 27 were lines of credit, accounting for a third of the value of new commitments to the financial sector. Some FILs were intermediated by large government-owned banks and, from a developmental and efficiency perspective, the Bank may have lost opportunities for deepening the private banking system. The rationale for FILs has been the shortage of term finance, presumed to have been caused by a shortage of funds at financial intermediaries. But risk aversion of the lender or borrower is an equally likely explanation in crisis.

The Bank's support to countries' financial sectors during the crisis depended also on the quality of its engagement,

especially through advisory services, before the crisis. Much of it took the form of FSAPs undertaken as joint exercises with the IMF. Reviews of 12 FSAPs in the four years before the crisis suggest that most had identified the country's financial sector vulnerabilities and provided a good basis for crisis intervention, although focus on cross-border issues had been somewhat lacking.

Although FSAPs were useful for identifying vulnerabilities, they are not designed to act as an early warning system. Nevertheless, lack of an early warning system does not seem to have been a serious impediment to the Bank's country-level response. The post-crisis increase in financial sector monitoring by many regions did help the Bank assess the level of country stress and design follow-up operations.

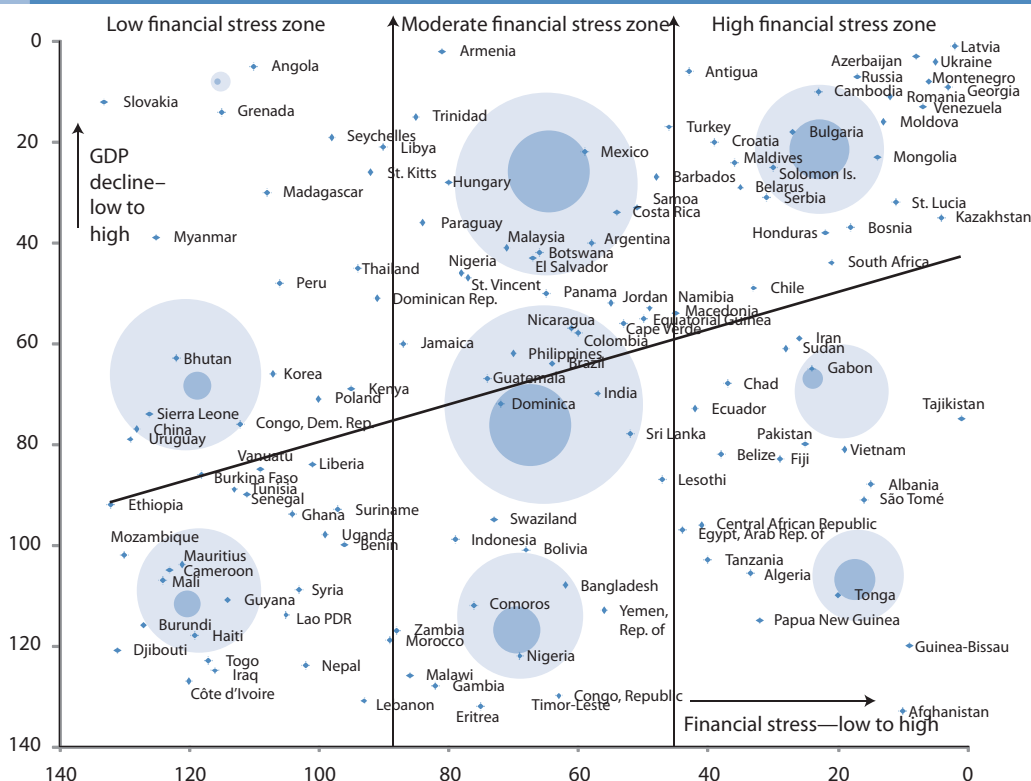
Continuous engagement with a country's financial sector is critical and can provide the basis for quick intervention. Yet there had been some decline in the Bank's financial AAA in the years immediately preceding the crisis. The absence of such engagement can seriously limit the effective design of operations at a time when new diagnostic work is not possible. Limited engagement in key areas of the financial system targeted in some crisis loans may have contributed to their limited relevance and effectiveness.

Context for Bank Crisis Support to the Financial Sector

Between FY09 and FY10, the Bank made 106 loans with some financial sector content to 57 countries, with total commitments exceeding \$28 billion. Seventy-seven of these, in 46 countries, had some crisis relevance (appendix C, tables C.1–C.5).¹ Much financial sector lending occurred in multisector operations in tandem with other sectors, and on a weighted basis financial sector crisis commitments were considerably lower—\$12.8 billion. A third of the 77 projects with some crisis relevance (26 projects) had less than 25 percent financial sector content. The Economic Policy Sector Board accounted for a larger part of finance-related commitments than the FPD Sector Board, and its share in disbursements (because of its high proportion of DPOs) was nearly twice as large (\$8 billion versus \$4.5 billion). In terms of instruments, 49 of the 77 crisis-related projects were DPOs, of which about half (24) were nonprogrammatic, largely single-tranche operations.² A third took the form of investment lending.

Figure 3.1 illustrates the distribution of the Bank's total and financial sector support during the crisis period, relative to countries' overall stress, in terms of decline in GDP growth and financial stress. Forty-two percent of overall Bank sup-

FIGURE 3.1 Financial Stress and GDP Decline in Countries Receiving Bank Financial Sector Lending during the Crisis



Sources: IMF International Financial Statistics; Bloomberg; and DataStream.

Note: Countries are ranked by GDP stress and an indicator of composite financial sector stress, defined as an average of indicators on deposit decline, credit contraction, stock market declines, and increases in EMBI spreads.

port (large circles) went to countries in the middle spectrum of GDP stress. Ranking countries by financial sector stress, 70 percent of financial sector lending (small circles) went to countries in the middle tier of financial stress. Around 23 percent of both aggregate and financial sector lending was allocated to countries that ranked in the top third of financial sector stress.

Applying specific criteria to identify a subset of 77 crisis-related financial sector operations, table 3.1 illustrates their distribution across countries ranked by financial sector stress (appendix C, table C.7). Sixteen of 43 recipient countries had high levels of financial stress and received around a third of commitments; another 27 had moderate to low levels of stress and received around two-thirds of commitments.

TABLE 3.1 Financial Stress in Countries with Crisis-Related Lending Operations, FY09–10

Financial sector stress level	Number of crisis-related financial sector operations (77)	Number of countries	Average annual commitment of loans with financial sector content in the crisis period (US\$ millions) (77)	Average annual commitment amount (weighted by financial sector shares) in the crisis period (US\$ millions) (77)	Real credit growth—median change (year on year) between the pre-crisis and crisis periods (%)	Real deposit growth—median change (year on year) between the pre-crisis and crisis periods (%)
High	31	16	4,754	2,502	-15.5	-17.1
Medium	27	17	7,165	3,546	-7.3	-3.1
Low	15	10	951	342	3.2	1.7
Total	73	43	12,870	6,390	-8.9	-4.70

Source: IEG portfolio analysis.

Note: Ranking by financial sector stress is based on all 106 Bank operations with any financial sector content. See table C.7 for the subset of 77 crisis-related financial sector operations. Information on country stress was not available for four operations in three countries.

The Country Context: Nature of Financial Stress and Nature of Bank Intervention

Borrowers in the financial sector during the crisis experienced different dimensions of financial stress that were not always correlated. Figure 3.2 illustrates, for example, the limited correlation between credit and market stress. Some countries, such as Indonesia, Nigeria, and Peru, experienced high levels of stock market volatility, although they were not as credit constrained as some other countries. By contrast, in Mexico and Colombia, credit market effects were pronounced. A few countries, such as Ukraine, displayed high levels of both forms of stress.

IEG examined the extent to which Bank lending was targeted to the form of crisis and found limited difference in the subsector and thematic content of the Bank's 77 crisis-related projects, compared with the 29 noncrisis projects (figure 3.3 and appendix table C.7). Banking accounted for only 13–15 percent of subsector content in both groups. Eleven percent of noncrisis projects and 14 percent of crisis projects focused on micro or small and medium enterprise (SME) finance. Crisis-related projects had higher shares of regulation or competition policy, or SME support (over 11 percent) compared with noncrisis projects (6–8 percent).

A reason could be that a relatively small number of countries felt threatened by a banking crisis. The average country score for distressed banking sectors in the 77 crisis-related projects (on a scale of 1–4) was 1.9, compared with a higher

score of 2.8 for a decline in access to credit and an even higher score of 3.2 for market uncertainty and macroeconomic stress (table 3.2).³ Such factors may explain the distribution of the Bank's crisis response. Only seven of the financial sector projects, of which four were in Europe and Central Asia, had loan components designed to address immediate impairments in financial institutions. Twenty-four addressed crisis-related credit issues, and 38 were intended to address structural, medium- to long-term financial sector issues.

When countries are ranked by level of financial stress, it is evident that short-term issues received greater emphasis in more severely stressed countries, especially related to liquidity and credit shortages. Countries with low levels of stress focused relatively more on longer-term issues. Access to finance was relatively prominent in the agenda of countries at all levels of financial stress (figure 3.4).

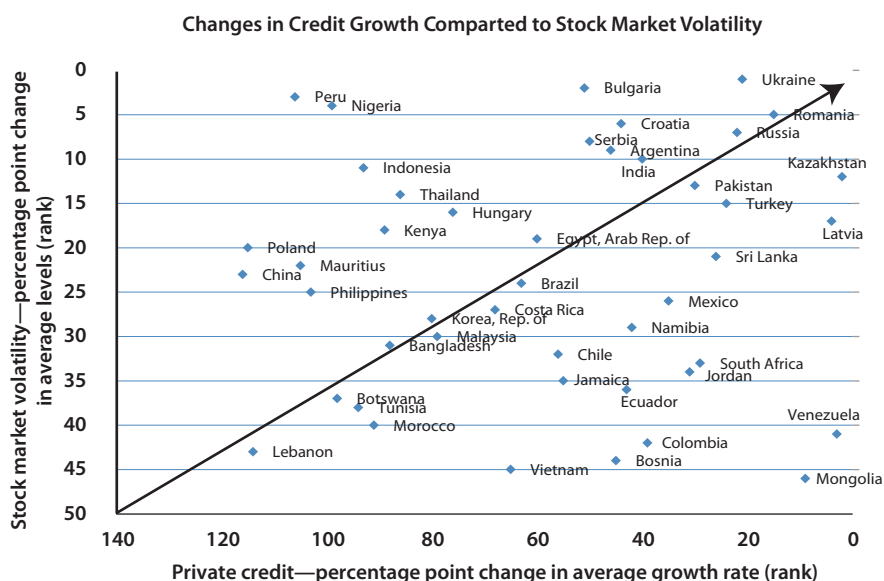
As shown in figure 3.5, which compares countries' credit growth in 2010 with their credit growth during the crisis (July 2008–December 2009), most client countries had positive GDP growth, and credit growth compared to 2009 had largely recovered.

Bank Readiness: Prior Engagement

CAS and CPS Programs and Country Engagement

Turning to the in-depth review of 18 countries, an analysis of the priority given to the financial sector in the country strat-

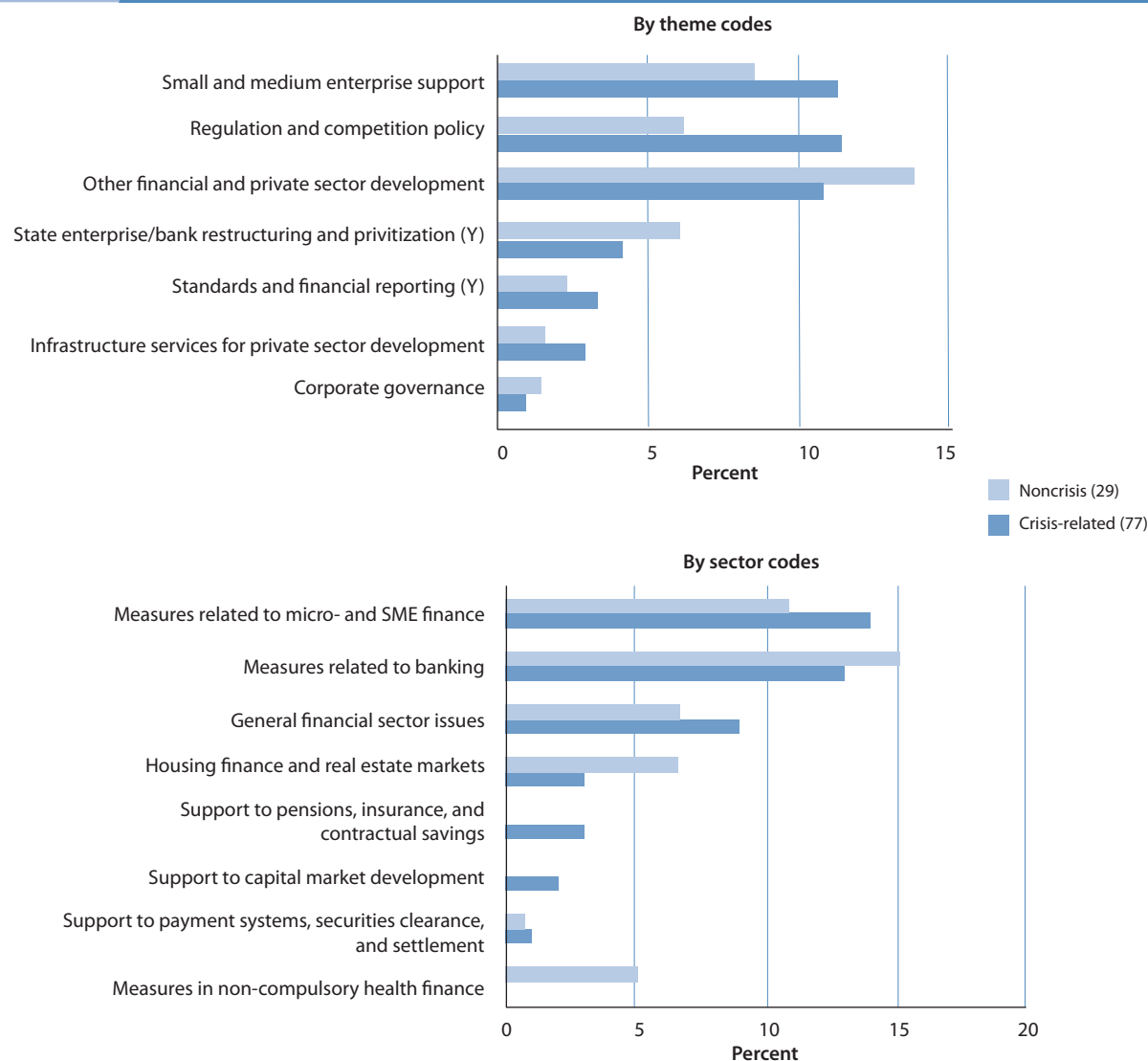
FIGURE 3.2 Limited Correlation of Financial Stress Measures: Credit Growth and Market Volatility



Sources: IMF data; Bloomberg; and DataStream.

Note: Private credit rankings based on 129 Bank borrowing countries for which data are available; stock market volatility rankings based on 46 Bank borrowing countries for which data are available.

FIGURE 3.3 Content of Financial Sector Projects during the Crisis Period, FY09–10



Source: IEG analysis of projects with financial sector content during the crisis period.

egy (CAS or CPS) of these countries just before the crisis suggests moderate attention to the financial sector. The average score (on a scale of 1–4) was 2.8 (appendix C, table C.8). Only three countries—Egypt, Grenada, and Morocco—had scores of 4, implying that their financial sectors were considered areas of great priority before the crisis. Lending received a slightly lower score (2.2) than AAA (3.1). Financial sector programs before the crisis placed somewhat greater emphasis on depth and access, reflected in a score of 3.1, relative to risk and stability, which scored 2.4, perhaps reflecting the global sentiment that systemic financial risk was a lesser issue than in the past. Only three countries had undertaken some form of crisis-simulation exercise. However, the quality of engagement in the financial sector with country authorities was scored substantial or high in 15 of 18 countries.

Preparedness and Prior Analytic Work

A simple count of the numbers of Bank AAA with any financial sector content from FY02 to the first half of FY11 suggests some decline in the rate of delivery of AAA with financial sector content in the run-up to the crisis (table 3.2).⁴ Annually, delivered AAA with financial sector content peaked in 2004, then gradually decreased through 2007—although there was no significant decline in the total number of AAA products delivered Bank-wide during the same period. There has been some revival from 2008, although the pre-crisis peak of 2004 has not been achieved. These data refer to AAA with any financial sector content, but results are similar based on AAA with high (50 percent or more) financial sector content.

TABLE 3.2 Financial Sector Projects, FY09–10: Crisis Diagnostic and Crisis Response (number of countries)

Crisis diagnostic	Score	Average scores, crisis-related projects (46 countries, 77 projects)					
		AFR	EAP	ECA	LCR	MNA	SAR
Was the country's banking sector immediately affected by the global financial crisis—threat of bank failure, systemic financial failure?	1.9	1.9	2.5	2.3	1.6	1.1	1.2
Was there a sharp credit contraction or decline in access to credit due to the crisis?	2.8	2.0	2.5	3.5	2.4	3.0	2.7
Was there a lot of financial market uncertainty (stock market decline, sovereign spread increase)?	3.1	2.8	3.2	3.3	2.8	2.6	3.7
Were there sharp indirect, macro effects of the global financial crisis on the exchange rate or current account (depreciation, trade decline, terms of trade deterioration)?	3.1	3.3	3.0	3.4	2.9	3.1	2.9
Were there sharp indirect, macro effects of the global financial crisis on the capital account (capital flight, reserve decline, remittance decline)?	3.2	2.9	3.5	3.3	3.3	3.0	3.2
Was the country considerably affected by the preceding food and fuel crises?	2.5	3.5	3.0	1.5	2.4	2.5	3.0
Was the country's financial sector sound (well capitalized, sound lending, and so forth) before the crisis?	2.9	3.5	2.3	3.0	3.0	2.8	3.0
Crisis response ^a	No. of projects	AFR	EAP	ECA	LCR	MNA	SAR
Were there loan components in the financial sector designed to address bank or securities market impairment in short run?	7		2	4	1		
Were there loan components in the financial sector designed to address longer-term structural issues in the banking system?	37	3	7	10	9	6	2
Were there loan components designed to address short-term liquidity and credit shortages in the context of the crisis?	24	1	5	11	3		4
Were there loan components aimed at improving medium- and long-term access to credit and financial services?	38	2	4	15	7	4	6

Source: IEG portfolio analysis of projects with financial sector content FY09–10.
Note: Diagnostic scores are averaged at a country level, based on a scale of high/substantial/modest/negligible = 4, 3, 2, 1. Regions: AFR = Africa, EAP = East Asia and Pacific, ECA = Europe and Central Asia, LCR = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia.
a. Scores on crisis response indicate numbers of projects per region.

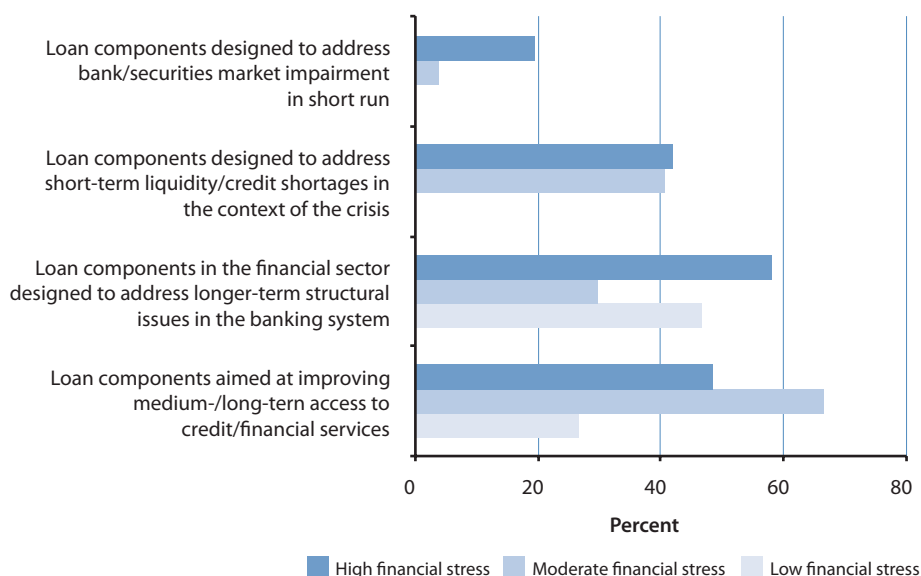
In terms of expenditure outlays, the decline is more pronounced and suggests that the decline may have begun earlier, from 2002, and continued in the crisis (appendix C, section 3, figures C.1 and C.2). Although it could be argued that the fall-off since 2008 was caused by the crisis, Bank-wide outlays on AAA as a proportion of operational expenditures have risen somewhat since the crisis. Latin America and Europe and Central Asia Regions managed to deliver somewhat higher shares of financial sector AAA in total AAA and invested more funds in financial sector AAA than other regions, because of large outlays in nonlending technical assistance, especially in Latin America and the Caribbean.⁵

These results appear to articulate one dimension of the decline in financial sector capacity alluded to in the Phase I cri-

sis report—the overall downward trend in the run-up to the crisis. The Phase I evaluation pointed to staffing constraints as one possible explanation. However, the results also suggest that there was relatively better preparedness for crises—in terms of having a knowledge base—in Europe and Central Asia and Latin America and the Caribbean, the two Regions that received a large share of financial sector lending during the crisis. And Europe and Central Asia also maintained a somewhat higher share of focused financial sector AAA in its portfolio than other Regions.

The content of the Bank's financial sector AAA before the crisis was examined in 10 select countries, grouping content into risk-related work (encompassing the soundness of banks or nonbank financial entities), depth-related (focus-

FIGURE 3.4 Levels of Financial Stress and Areas of Bank Intervention



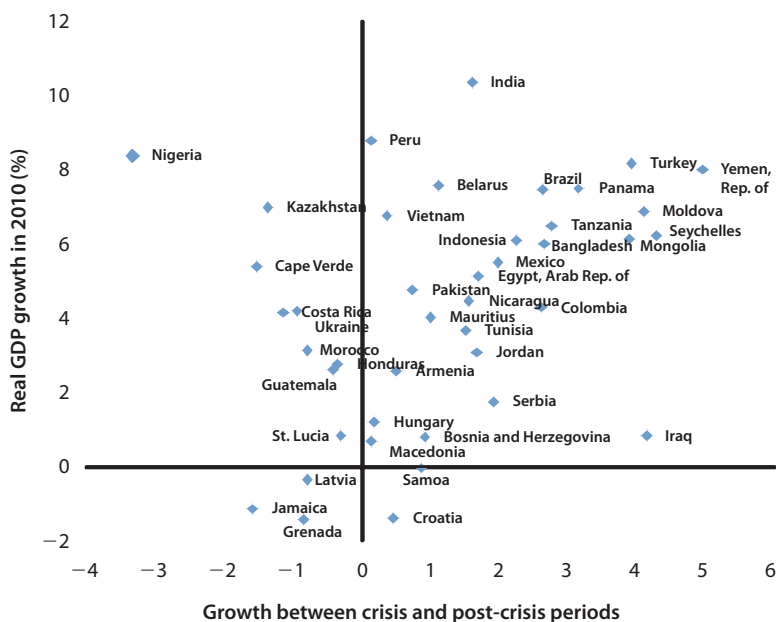
Source: IEG financial crisis project portfolio analysis.

ing on expansion of access or outreach), and other structural issues.⁶ Some countries—especially China, India, Indonesia, Mexico, and Nigeria—had significant work in areas related to financial depth in the run-up to the crisis, although others (Brazil, Peru, Turkey, and Ukraine) had been focused on risk-related issues (appendix C, section 3).

Diagnosing Vulnerabilities—FSAP Contributions and Regional Efforts

To what extent did the Bank’s financial sector work in the run-up to the crisis focus on financial risk? IEG undertook a partial review of the Bank/Fund FSAP, introduced after the Asian

FIGURE 3.5 Reduction in Financial Sector and Overall Stress of Countries with Bank Financial Sector Support at End of FY10



Source: IEG financial crisis project portfolio analysis.

crisis, with the intent of increasing focus on the assessment of system risk. It also reviewed other Bank efforts to monitor or counteract financial sector risk.⁷ Over FY02–FY11 (second quarter), 171 FSAPs or FSAP updates were delivered (appendix C, figure C.3). Between 2003 and 2007, however, annual deliveries slowed. Europe and Central Asia and Africa led the Bank in numbers and outlays on FSAPs—the Africa Region undertook as many, and spent as much, on FSAPs as Europe and Central Asia. In view of Africa’s more modest levels of financial intermediation, this suggests that FSAPs increasingly focused on issues of financial development compared to financial or systemic risks. FSAPs had not been conducted in recent years in some client countries with large financial systems, such as India and Nigeria, or at all in others, such as China and Indonesia. Three were large financial sector crisis borrowers.

FSAPs or FSAP updates were completed no more than three years before the onset of the crisis (2005 and later) in 12 of the 18 in-depth sample countries. IEG used these to compare FSAP findings with crisis difficulties and examine the extent to which FSAPs had identified vulnerabilities beforehand.⁸ Broadly speaking, the 12 FSAPs reviewed were fairly successful in identifying strengths and weakness. However, they were not uniform in their coverage, either overall or for the issues that proved to be of most importance in the crisis.

More recent FSAPs, including in Croatia, Latvia, and Ukraine, focused more on liquidity risks, external funding, and crisis preparedness and, as in Hungary, identified the vulnerabilities created by the high level of short-maturity, external borrowing by domestic financial institutions, high leverage, and currency mismatch. The Armenia FSAP update, by contrast, did not take into account external risks, which in the crisis proved more significant. External risks were detected in Moldova, where the FSAP pointed out vulnerabilities due to high dependence on workers’ remittances. The fall in remittances during the crisis led to a rise in banks’ nonperforming loans, although all banks but one weathered the crisis. In Colombia, Egypt, Guatemala, Mexico, Turkey, and Uruguay, FSAPs identified macroeconomic and structural vulnerabilities. As events revealed, their financial institutions proved resilient during the global crisis.

One issue that probably did not receive sufficient attention was the broader implication of foreign ownership of domestic banks, particularly in Central and Eastern Europe. Although the presence of foreign banks had indeed hastened the restructuring, transformation, and development of the financial sector in the region, it also created new vulnerabilities, which drew less attention (appendix C, section 4).

FSAPs were not designed as an “early warning system” to identify the location and timing of crisis but, rather, were to alert countries to areas of weakness.⁹ In 13 out of 18 countries IEG examined, including those with much earlier FSAPs, there were substantial attempts to follow up (appendix C, table C.9).¹⁰ A review of FSAP experience by Bank staff estimates that countries implemented 60 percent of recommendations.¹¹ It reports that many countries had stronger financial systems at the time of FSAP follow-up than their first FSAPs five years earlier. It suggests that the FSAPs’ identification of vulnerabilities aided the design of Bank support.

In addition, the Europe and Central Asia Region had prepared its own reports on financial risks, notably in the Kyrgyz Republic and Lithuania. Africa’s FPD department swiftly produced a special report on implications for Africa (September 2008) and produced further reports in 2009 and 2010. During the crisis, most Regions’ financial teams undertook periodic monitoring of its impact. Europe and Central Asia’s bimonthly Financial Sector Outlook was similar to the monthly Latin America and the Caribbean Financial Sector Outlook, and financial sector monitoring in South Asia began with weekly monitoring. The Middle East and North Africa Region had a monthly monitoring report that covered economic developments in general, not just the financial sector. The Bank’s FPD Anchor, which houses a greater proportion of staff with skills in crisis-related issues, formed a Crisis Preparedness Team in the fall of 2008 to provide support to Bank teams and countries experiencing financial crises. Its crisis simulation and contingency planning exercises have been carried out in 12 countries since 2009. Yet only two such programs were initiated before the onset of the crisis—pilots in Colombia and Indonesia.¹² A series of exercises related to crisis simulation have begun with support from financial sector trust funds under the secretariat of the Financial Sector Reform and Strengthening Initiative, though these too have been largely undertaken from 2009 onward.¹³ All these efforts were worthwhile, though most were initiated after the crisis began. However, enhanced monitoring helped the Bank to better target its interventions.

To conclude, there was some, albeit limited, decline in the Bank’s knowledge base of work in the financial sector in the period before the crisis, as well as some dilution of focus, in certain countries, on risk-related themes. Although the FSAP program was not designed to be and did not function as an “early warning system,” it provided useful guidance in dealing with problems. After previous FSAPs, many countries worked on shortcomings and, as a result, had more resilient financial systems in the crisis.

The Content of World Bank Support: Development Policy Operations

Two-thirds of the Bank's crisis support in the financial sector was through DPLs. The following sections evaluate these operations, grouped broadly by levels of financial sector as well as overall stress. The first section examines the relevance of the Bank's interventions in the context of the financial system stress faced by each country. The second section assesses early outcomes. And the third section reviews the likelihood of sustainability.¹⁴

Severely Affected Countries: Stabilizing Financial Institutions

Character of the Crisis

Only a handful of Bank client countries experienced sharp withdrawals of liquidity that precipitated runs on banks, the threat of systemic banking sector collapse, or collapse of other financial institutions. Existing structural weaknesses contributed to these outcomes: unduly high credit growth (greater than 50 percent per year in Ukraine), leading to high leverage (greater than 140 percent in Ukraine and Hungary to more than 240 percent in Latvia) and dependence on foreign currency funding to finance the credit expansion, with problems of mismatch of duration and currency. These were compounded in some cases by problems of poor enforcement of classification and provisioning rules, which led to severe under-provisioning, deposit withdrawals, and steep GDP declines.

Both Ukraine and Latvia faced significant bank failures, precipitated, in Ukraine, by the sixth largest bank and, in Latvia, by a run on Parex Bank, the second largest bank. Both were put under central bank receivership. Large-scale injections of liquidity to the rest of the system were needed to stem further outflows, as in Hungary, where financial sector difficulties were compounded by poor macroeconomic policies. That country's fiscal and current account imbalances led to large capital outflows from its government bond markets.

Not all severely affected countries were in Europe and Central Asia. Mongolia also had a highly dollarized financial system, rapid credit growth in the preceding boom years, and loan-to-deposit ratios of up to 140 percent. In December 2008, there was a run on Anod Bank, Mongolia's fourth largest bank, and most banks approached insolvency.¹⁵ Mongolia and Ukraine were also affected by adverse commodity prices. In the latter country, steel and metals accounted for large export earnings. Copper, the main export of the former, declined in price by 60 percent.

Nigeria's banking sector crisis was large in scale and reflected pre-existing vulnerabilities in the financial system. A growth

of speculative lending to equities-related margin accounts had begun as early as 2006, when Nigerian banks sought to increase their capital base through secondary issues on the local stock exchange. The "reverse" commodity price shock, caused by the rapid rise in oil prices in the run-up to the crisis, fuelled speculation in the petroleum sector; this led to significant losses for the banks when the oil price collapsed. The withdrawal of offshore equity purchases also played a role. From March 2008, national and foreign holders of shares began to sell, and with deflation of the bubble, Nigeria's stock markets fell more than 60 percent in 12 months, leading to further margin calls as well as growing losses to the banks.

In September 2008, the central bank began large-scale liquidity support. However, special audits, recommended by IDA to ascertain the impact of the bubble deflation on banks, were not undertaken at the time because of a lack of political will. Losses were not fully reported. In March 2009, the IMF noted that the banking sector reported capital adequacy of above 21 percent and modest nonperforming loans.¹⁶ Special audits were initiated in June 2009, however, following the appointment of a new central bank governor. Those audits revealed large-scale insolvency. In August 2009, the central bank intervened in five banks and dismissed their management. These banks represented some 40 percent of bank loans, 30 percent of deposits, and 31 percent of bank assets. Ultimately, the central bank intervened at nine banks, at a reported cost of over \$3.9 billion.

Other countries faced collapses of specific financial institutions and severe overall stress. One example is Grenada. Its financial distress was caused by speculative investments in U.S. real estate by an overseas financial group using term deposits from insurance subsidiaries in the country. However, Grenada's more significant difficulties during the crisis were a massive fall in foreign exchange earnings, an increase in unemployment, and a 12 percentage point contraction in real GDP growth. Moldova also faced the failure of one mid-sized bank in June 2009, but overall the banking system remained liquid and well capitalized, although GDP declined by 6 percent because of reduced remittances and export revenues.¹⁷

Response to Stress—Volume and Timing

In all cases except Nigeria, the Bank responded with development policy lending in parallel with an IMF arrangement, often as part of a larger international rescue consortium. There were dedicated operations for countries facing the most severe systemic financial sector issues, as in Latvia and Ukraine.¹⁸ In Grenada, Hungary, Mongolia, and Nigeria, the Bank prepared multisector operations, given the combination of macroeconomic and financial sector issues.¹⁹

In most cases, the Bank's loans were small elements of the overall aid package (appendix B). Nigeria was the sole exception. In Ukraine, support amounted to less than 5 percent of the total rescue package of €24.5 billion.²⁰ The Bank's contributions to Latvia and Hungary also amounted to around 5 percent in relative terms.²¹ Clearly, the Bank's contribution lay in areas other than its financial support.

Going forward, a question is whether the Bank will be able to maintain the same level of dialogue with its clients, given its small financial stake. The Bank's relative financial contributions to addressing the crisis were somewhat larger in the smaller countries, such as Mongolia and Grenada, although the Bank's share in total IFI financing to Mongolia declined from around 30 percent in 2005–07 to around 10 percent during the crisis.²² The Bank was a significant contributor in Grenada, providing a third as much as the IMF.²³ And in the absence of the IMF, IDA was the largest financier to Nigeria, with \$500 million.²⁴ Bank loans were generally made available several months after the peak of the crisis, although they were still of value in the recovery phase.²⁵ Loan preparation for Ukraine and Latvia began in late 2008 but did not go to the Bank's Board until August 2009. The loan to Hungary went to the Board in September 2009, six months after most prior actions were met, in this case also because of the need to formulate Bank policies for graduated countries.

Relevance of Program Content—Crisis Stabilization

In most countries with severe financial institution crises, the Bank performed well with regard to quality of diagnosis and relevance of program design, for both the crisis and recovery phase. Ukraine's support program started before the financial sector DPL, with relevant components in the preceding multisector third DPL.²⁶ Its prior conditions recognized legal and regulatory steps initiated to address banks' recapitalization and resolution through the enactment of the "anti-crisis law."

Ukraine's first dedicated financial sector crisis operation focused appropriately on immediate crisis needs: initial steps in building a bank rehabilitation framework, laying down conditions for drawing on state funds for bank recapitalization, and providing the central bank with enhanced powers to intervene in troubled banks. It also included measures to ensure transparency in the use of public funds as well as enhancement of the bank resolution framework and strengthening of the pay-out functions of the Deposit Guarantee Fund (box 3.1). The second operation in the programmatic series was envisaged to focus on further recapitalization to promote restructuring and sustainability, including the adoption of an exit strategy for the state from the banks, resolution of nonsystemic banks, an enhanced deposit insur-

ance scheme, consolidated supervision of financial conglomerates, and greater transparency. In some respects, the first operation could have gone further, for example, with regard to the low thresholds set for state recapitalization, but the prevailing philosophy of the central bank was to save banks at all costs. This was emphasized also by the massive liquidity support to the system, which in a number of cases turned out to be solvency support to technically insolvent banks.

The Bank clearly played a major role in assisting the government and central bank in creating a bank resolution framework and a process for diagnostics and classification of banks leading to their recapitalization. The Bank had an important convening role and a seat at the RECAP Board, a high-level advisory forum on the bank resolution process. Private bankers in Ukraine affirm that the Bank will remain needed for longer-term institution building once the Stand-By Arrangements have been concluded. Notably, however, the IMF's role in Ukraine took the form of transparent fiscal support, with part of its funds allocated directly to the government instead of the central bank.²⁷

Similarly, the Bank operation in Latvia correctly focused primarily on issues relevant to the crisis: improved stress tests for banks leading to a plan to determine additional capital requirements, legal issues to enable more effective bank resolution, new flexibility in the insolvency law, corporate debt restructuring, and mortgage foreclosure. For longer-term financial strengthening, the plan included the passage of better guidelines for supervision and a review of financial consumer protection laws. An informal division of lead responsibilities with the IMF led the Bank to focus on long-term legal and structural issues (insolvency law, out-of-court settlement, consumer protection); the IMF-EU focused on immediate issues, updating regulations on liquidity risk management and ensuring the provision of liquidity to the banks and government. The restructuring of Parex Bank was undertaken largely by the government on its own initiative.

Forward-looking outcome indicators were specified for the program, although some were broad ("adequate handling" of potential bank distress, capital adequacy, and provisioning) and others were influenced by factors outside the control of the program (such as deposit growth). Good progress was achieved on most fronts. The Bank Implementation Completion Report team noted subsequent important achievements (the resolution for the restructuring of Parex Bank and the new Insolvency Law, approved in 2010).

Although most targets were largely achieved, many cannot be attributed solely, or even largely, to the Bank. Increases in banks' capital were brought about largely by their responsible overseas owners, although the Joint IFI Action Plan may have

played a supporting role. The financial market regulator had already launched the revision of several regulations (on asset valuation and provisioning, capital adequacy assessment, and additional capital buffers). The Bank provided comments and suggestions rather than initiating these changes.

Despite a somewhat dated FSAP (2005), Bank staff in Hungary were also able to correctly identify critical measures and reflect them in a program that included, appropriately, measures to ensure access to short-term liquidity; increased deposit insurance protection; a debt guarantee fund facilitating access to longer-term debt funding; a capital enhancement fund for strengthening the levels of bank capital; and strengthened forward-looking supervisory powers and sector diagnostic tools. However, as with some program areas in Ukraine and Latvia, most of these measures were taken independently. The Bank did contribute to the intensified on-site inspection process designed to permit better diagnostics

of banks' risks and greater empowerment of supervisors to take action in troubled banks. Notable in terms of similarities with the preceding operations is appropriate focus and design, but issues of attribution remain; so many actions, although well designed, were outside the Bank's purview.

The DPO in Grenada also appropriately supported initial steps in the resolution of the failed insurance subsidiaries, as well as the enactment by Parliament of an Insurance Act that strengthened the regulatory environment for the insurance business in Grenada and helped effective cross-border supervision of Eastern Caribbean Currency Union countries. The policy reforms supported by the DPO paralleled the reforms agreed under an arrangement with the IMF.

By contrast, doubts may be raised about program design in the Bank's support to Mongolia's financial sector. Financial sector actions in the multisector Development Policy Credit were based on preliminary process measures, such as preparation of

BOX 3.1 MEDIUM-TERM SUSTAINABILITY: SEVERELY AFFECTED FINANCIAL SYSTEMS

In **Ukraine**, the proposed law transferring bank failure resolution to the Deposit Guarantee Fund has yet to be passed, and laws on consolidated supervision and creditor's rights have been enacted but have yet to be fully implemented. Three large systemic banks have been recapitalized, and strategies for their privatization and state exit were approved in March 2011, but the resolution of the fourth bank (important, although outside the sphere of the Bank program) is a long way off, as it has so far relied on fresh equity from private investors, which is still deficient. Most other banks raised capital on schedule, and the central bank liquidated those that were not able to do so. Changes in the political system, including the appointment of a new central bank governor and senior management with limited experience in banking and unproven track records, have slowed progress. Nonperforming assets remain large, and regulatory and taxation issues limit their conventional treatment. Enforcement of existing laws remains a major challenge. Ukraine has yet to fully adopt Basel standards for bank supervision.

In **Latvia**, too, structural problems remain: a deposit base that is small, short in duration, and apparently volatile. A clear-cut basis for home-host supervision to deal with foreign capital risks is still needed, as is reliable information on domestic borrowers—and bank owners. Oversight structures may benefit from rationalization. Reform momentum appears diminished.

In **Mongolia**, as commodity prices recovered and the worst of the crisis receded, deposits began to stabilize. But formal measures toward formulating a bank failure resolution framework did not progress. Although Anod Bank was put into receivership, tasks of audit and resolution have been delayed. The banking system's structural weaknesses remain, nonperforming loans occur frequently, and the erosion of banking sector capital remains a concern. Overall, it appears that the Development Policy Credit played a marginal role in Mongolia's financial sector during the crisis or the stabilization phase.

By contrast, in **Grenada**, medium-term outcomes have been accomplished, with a regional plan for the orderly resolution of the failed financial conglomerate with active participation by Grenada. The Insurance Act that came into force in March 2010, among other actions, sets out explicit solvency and capital requirements for life insurance companies; provides for the establishment of statutory funds to protect policy holders liabilities; imposes penalties on companies and their officers for noncompliance; and increases supervision of insurance agents, brokers, and adjusters.

Sources: World Bank, Project Appraisal Documents.

an action plan and enhanced monitoring, that were only a first step toward addressing the issues.²⁸ The Bank also provided a Multi-Sector Technical Assistance Project of \$12 million to implement further measures, including an action plan for bank resolution and restructuring. However, the project became effective only in January 2011.

Also of arguable relevance, in terms of financial sector reform, was the Bank's response to Nigeria's crisis. Although it is true that Nigeria faced serious fiscal issues and the \$500 million multisector DPL approved in 2009 was intended to provide budgetary support to the government, its prior conditions in the financial sector were more problematic. They chiefly supported the central bank's liquidity support policy, which had begun in September 2008 based on the information that the banks were solvent and well capitalized.²⁹ However, little was known about the true condition of the banks. The results of special audits, which began before the Bank's loan approval, may have suggested different policy measures.³⁰ Although there was substantial prior Bank engagement in technical advice, primarily through a \$900,000 grant financed by the Financial Sector Reform and Strengthening Initiative, engagement was largely focused on the nonbank financial sector.³¹ Lacking special audits, it is not clear that the Bank had an adequate basis of information and engagement with the banking system in Nigeria to have undertaken this part of the operation.

Medium-Term Outcomes—Structural Soundness?

To what extent did these crisis-period operations contribute to outcomes of stability and structural soundness of the financial systems of countries concerned? Experience has been mixed and illustrates the difficulties of sustaining country (and in some cases Bank) engagement when circumstances improve and political leadership changes. In Latvia, no further engagement in the financial sector is envisaged, and there is some risk of loss of momentum in areas where progress had been achieved. In Ukraine, although the Bank continues to shepherd reforms, circumstances within the country have slowed the process. Reforms achieved in both so far appear sustainable but incomplete. There has also been a loss of momentum in Mongolia, with the positive reversal of external circumstances. However, lasting progress appears to have been achieved in Grenada.

Moderately Affected Countries: Crisis Support and Medium-Term Reform

Character of Crisis

Most countries' financial systems were not so affected by the crisis, even though some had considerable overall economic impact. Mexico and Turkey each suffered GDP declines of more than 10 percentage points during the crisis on

a peak-to-trough basis, and bank credit growth stagnated.³² Yet banking sectors in both countries were largely sound (in part because of previous Bank support). Severe losses in corporations that had speculated against peso depreciation in Mexico in late 2008 led to widespread loss of confidence, adding to pre-existing problems in the housing finance and consumer credit markets. In Turkey the equity market index declined by 60 percent by mid-2009.³³ Thus, in both countries, a slowdown in credit, market volatility, and (in Mexico) difficulties in some loan markets were the main manifestations of the crisis.

Bank Response—Financial Support

In Mexico, the Bank responded in the financial sector with AAA and two large lending operations with financial sector components: a \$1 billion Sector Investment Loan innovatively designed as a quick-disbursing quasi-DPL and a \$1.5 billion DPL.³⁴ A large part of financial sector support to Turkey took the form of SME FILs (\$950 million equivalent), as discussed further below, but limited financial sector elements also appeared in the Second Competitiveness and Employment DPL (\$500 million equivalent) and the Restoring Equitable Growth and Employment DPL (\$1.3 million equivalent).³⁵

Mexico also had access to a \$47 billion FCL with the IMF, approved in April 2009, and access to loans for trade finance from the IDB and the U.S. Federal Reserve. Mexico did not disburse its funds from the IMF or IDB, although it fully disbursed funds from the Bank. One explanation offered by staff for high disbursements of Bank resources is the potentially negative market effect of an IMF program. As in other countries, Bank support to specific sectors is not perceived by markets as an indication of potential concerns. A second factor may be that the central bank is precluded by law (as in many Latin American countries) from lending to the government for budgetary support. Because IMF funds disburse directly into the central bank's reserves, direct support to the government can be more difficult—although increasingly the Fund is circumventing this (IMF 2010b). A third possibility is the lower cost of Bank loans compared with the IDB or IMF, as discussed in chapter 2.

Mexico was one of a handful of countries with strong fundamentals that were eligible for an IMF FCL with virtually no conditionality, reflecting their strong economic performance. In other countries, the Bank's potentially less onerous policy changes could also be a factor.

Bank Program—Stimulus and Strengthening

In both countries, Bank operations were appropriately balanced across sectors. The financial sector, correctly, formed

a relatively small part. Turkey's second Competitiveness and Employment DPL (December 2008) had been largely prepared before the crisis and focused on long-term competitiveness. Prior conditions on finance in that DPL were incremental medium-term measures: strengthening of banking supervision; improved supervision coordination; and, for capital markets, reduced related-parties transactions, increased disclosure and investor protection, and increased use of Turkish accounting standards. They also contained the enactment of a new insurance law.

A single prior condition was included in Turkey's Restoring Equitable Growth and Employment DPL: implementing a "blind broker" function by the central bank, intended to address the freeze in money markets and interbank lending.³⁶ Enacted by Turkey in 2008 soon after the outbreak of the crisis, its inclusion as a prior condition in the Restoring Equitable Growth and Employment-DPL of March 2010 was somewhat late in timing, albeit relevant as a crisis response measure.

In Mexico, the Bank provided timely, high-quality AAA³⁷ beginning with a high-level diagnostic mission, which concluded that the strains in Mexican financial markets had not risen to a level likely to prompt a systemic crisis. The government is in the process of implementing a number of the Bank's recommendations on future regulatory architecture. In July 2009, the Bank also initiated a crisis simulation exercise in Mexico.

Directly relevant to the crisis was the Bank's investment loan to Sociedad Hipotecaria Federal (SHF), a second-tier development bank in Mexico, which led the development of the residential mortgage market.³⁸ A large part of mortgage lending had been provided by unregulated nonbank, non-deposit-taking financial intermediaries, known as the SOFOLES. Their loss of access to funding because of the crisis created a widespread loss of confidence approaching systemic proportions. Support to mortgage lenders through credit and purchase of their mortgage-backed securities was crucial to prevent a collapse of these markets, which would have been a major economic blow. The operation was also innovatively designed. As part of its debt management strategy, the Mexican government wanted Bank funds to be loaned directly to SHF. Because Bank policy does not allow DPLs to nonsovereign countries, the operation was structured as a two-tranche investment project. The eligible expenditures against which the Bank disbursed were the repayments of SHF short-term debt, essentially substituting IBRD long-term debt, which was the main objective of the operation.

Mexico's multisector DPL (November 2009) was primarily budget support designed to help maintain the government's

countercyclical fiscal policies. A limited number of financial sector actions (improving transparency in derivatives positions and enhanced transparency of development banks that had expanded their lending operations during the crisis) responded to vulnerabilities exposed by the financial crisis. Other actions were not related to the crisis—enhancement of consumer protection, access to finance—and reflect a continuation of the overall policy direction of the government and Bank relative to the financial sector.

Bank Program—Long-Term Sustainability

The Bank correctly judged that the main problems in Turkey were macroeconomic; financial sector actions show signs of being sustained. Triggers for a potential follow-up include enactment of a new commercial code (passed) and a new capital markets law (under discussion). Turkish accounting standards are being extended from listed companies to all companies. Investor protection now permits legal recourse against mismanagement. Follow-up regulations to the new insurance law have been passed. But some measures, such as the coordinating committee for bank supervision, were less useful. The committee met irregularly and provided little guidance.

In Mexico, too, following the Bank loans, there were positive developments in housing finance markets. A draft bill has been prepared to regulate nonbank intermediaries such as the SOFOLES, and their mortgage lending has diminished. New prudential norms apply to the SOFOLES, and stronger provisioning requirements for mortgage loans have been issued. Some SOFOLES have been acquired by banks, others are in the process of applying for a banking license, and some small ones have closed. Outcome indicators show an increase in housing loans delivered, a reduction in the short-term debt of SHF, and an above-target share of lower-income groups in housing loans.

Overall, Bank interventions in Mexico through the DPL and SHF loans during the crisis were relevant and effective in helping the government to identify the main vulnerabilities exposed by the global crisis and in providing financial resources and advisory services to help the government address them. In both Mexico and Turkey's DPLs, there was an appropriate balance in focus between the financial sector and other sectors. However, both countries' DPLs also contained financial sector measures largely unrelated to the crisis.

Less-Affected Countries: Precautionary Fiscal Support

The majority of countries that received DPLs with financial sector content during the crisis, even when the financial

sector was the centerpiece of conditionality, did not have financial system crises. Nor did overall country conditions deteriorate significantly, notwithstanding a period of sharp turmoil in credit and securities markets. The Bank's major contributions appear to have been its signal of support to domestic and external markets and its provision of supplemental revenues to governments in case of crisis-related declines, or for stimulus. These include the remaining case study countries: Colombia, Egypt, Guatemala, India, Morocco, and Uruguay.

Country and Financial Sector Conditions

Despite contractionary intervals in 2008 and 2009, growth in these countries generally remained positive.³⁹ Deterioration was generally manifest through external accounts—declines in exports, foreign direct investment, or capital flows—with varying impact on government fiscal positions.⁴⁰ In the financial sector, private credit growth in some countries remained positive but slowed sharply (Guatemala, for example), reflecting a combination of contractions in market liquidity, the slowdown in demand for funding as a result of slower growth, and rising net lending to government. In other countries (Uruguay among them), the crisis did not reduce credit to the private sector in any significant way.⁴¹ In many, a credit slowdown followed a boom in the preceding years (for example, Colombia and India). Most countries were affected by a high degree of market turbulence and a significant increase in sovereign debt spreads, sometimes, as in Egypt, compounded by the fact that a portion of public debt was dollarized and faced significant reductions in nonresident holdings. In some places (such as Morocco), authorities' efforts to provide a fiscal stimulus increased fiscal deficits.⁴²

Banking systems in all these countries remained sound, often because of significant reforms in the preceding decade, often with Bank assistance—as in Colombia, Egypt, Guatemala, Morocco, and Uruguay.⁴³ Egyptian banks, for example, did not suffer from excessive leverage. Low overall credit was reflected in a low loan-to-deposit ratio of 52 percent for all banks, a source of strength in the crisis but also a sign of shallow financial markets and crowding out. However, in some of these countries, other segments of the financial sector presented vulnerabilities that could have worsened with the financial crisis.⁴⁴

Nature and Relevance of Bank Response

Bank support tended to focus on the medium-term agenda, often on process-related and incremental reform, although where there were known vulnerabilities, these were sometimes addressed, as in Colombia's Financial Sector

DPL, which supported an increase in banks' capital buffers (achieved by a new regulatory provision), enhanced supervision of liquidity risks, and a strengthened framework for the intervention of unauthorized financial intermediaries. These were appropriate to the crisis context, although they would have been taken by Colombian authorities even without the intervention of the Bank. In contrast, reforms to strengthen the securities markets were not crisis related but formed a part of the medium-term sustainable growth program.⁴⁵

Guatemala used its 2008 and 2009 multisector programmatic DPLs largely to focus on improving macroeconomic stability and increasing fiscal space, improving governance, and increasing opportunities for vulnerable groups. Probably because there were no pressing risks in the financial sector, the government addressed medium-term financial sector issues—namely, supervision, improvement of the debt market, and access to finance through passage of the Movable Guaranty (Collateral) Law. The 2009 DPL was increased from \$200 million to \$350 million to provide more funds during the crisis.

In Uruguay, the Second Programmatic Reform Implementation DPL was approved in February 2009, at the height of the crisis. This \$400 million multisector DPL-DDO was the second and last operation of a multisector program approved in May 2007. Its principal areas of focus were tax and social security reform. The financial sector component focused on the continuation of reforms initiated under the first operation, on areas unrelated to crisis risk—improvement of the capital markets promotion and regulatory framework; reform of the payments and securities settlement system; reform of the legal and institutional framework for corporate insolvency; and information transparency and disclosure reform. Focus on a medium-term reform agenda was appropriate because there were no concerns about the stability or liquidity of the financial system.

Two features of Uruguay's DPL were clearly tailored to the crisis: the increased amount and the DDO feature. As global turbulence increased, the Uruguayan authorities requested that the loan amount be increased from \$300 million to \$400 million. Although the increased amount and the DDO feature were appropriate, given the government's request for contingent financing, in this case it was drawn in one tranche after effectiveness.

Egypt's Third Financial Sector DPL (\$500 million) was not included in the CAS and is viewed by the country team as linked to the global financial crisis. Requested in February 2010, in the amount of \$1 billion, preparation was swift.⁴⁶ The loan went to the Board in May and was fully disbursed in June. Its long-term objective was to assist further develop-

ment of the enabling environment for financial intermediation, access, and increased private sector participation in the provision of financial services. But its immediate effect was a positive impact on government finances; this was its main contribution to the stabilization objective.

The loan essentially continued the longer-term reform program that began in 2006. Significant reforms had been included in the first generation of engagement (2004–08), consolidating the structure of the financial system by reducing the number of small, undercapitalized banks; lowering state ownership in the system; settling or resolving long-standing nonperforming loans; and ensuring that the banking system was well capitalized and resilient to credit shocks on the eve of the crisis.⁴⁷ The third DPL contained some useful medium-term reform measures that essentially continued, if not overlapped with, regulatory and supervision reforms in the first two DPLs.

The main areas of greater emphasis focused on medium-term issues of financial depth rather than financial risk, in terms of expanding financial inclusion and access; although appropriate in the medium term, this essentially continued a pre-crisis dialogue. Special provisions were included to promote the creation and expansion of microfinance institutions as well as leasing and factoring companies and to introduce the direct deposit of government payments (salaries, pensions, and such) into bank accounts, the use of mobile phones for payment transactions, and greater use of the private credit bureau for compiling and rating credit information on medium, small, and micro enterprises. In principle, access to credit can be a crisis-related concern for SMEs, with credit constraints, payments delays, and, eventually, labor market repercussions. Egypt, unlike many other countries, did not have a sharp credit expansion in the run-up to the crisis; therefore, credit constraints were not a correction of past high lending. Most of the issues addressed that were related to access were more relevant for medium-term development than for addressing the immediate aftermath of the crisis.

Egypt's third DPL failed to address fundamental shortcomings of the country's legal framework: the absence of a modern bankruptcy law and insolvency regime and the lack of an efficient registry of collateral security on movable assets. This may be explained by its short preparation time, because inclusion of such important measures might have required prolonged consultations that would have delayed loan approval, issues that were difficult to tackle in the context of a crisis. Overall, therefore, the contributions of this operation lay in its fiscal support during the crisis. In terms of strengthening the financial system, the areas of focus were not related to risk but to medium-term depth issues that were arguably of limited relevance in the immediate context of the crisis.

As observed in other countries, given the crisis situation, key areas of more difficult reform were not tackled.

Morocco's \$200 million DPL, approved in December 2009, was a two-tranche operation resembling programmatic lending. AfDB provided parallel support. Although included in the CPS, its amount was increased to support government finances. Following recommendations from the 2008 FSAP update, it included some focus on improvements in financial regulation and supervision and better attention to risk management in capital markets. For the most part, however, the operation focused on longer-term issues of household and SME access to finance. These areas also had some crisis relevance, because of rising numbers of nonperforming loans in microfinance and increased real estate exposures. Morocco also conducted two crisis-relevant crisis-preparedness and management exercises with Bank support.

Sustainability of Bank Crisis Period Interventions

In terms of sustainability, the Implementation Status Report for Colombia's DPL, prepared in February 2011, shows progress in achieving the expected outcomes for raised capital ratios,⁴⁸ liquidity ratios in compliance with regulations, and the investigation of 82 unauthorized investment schemes by January 2011. Securities market reforms were also beginning to produce results. The Implementation Completion Report for the second Uruguay Programmatic Reform Implementation DPL rates the achievement of the development outcomes of the Business Climate and Capital Markets Development Component as moderately satisfactory. Positive achievements include the passing of the Capital Markets Law and the Payment System Law. The approval of the Bankruptcy Law is an important initial step in the overhaul of the insolvency regime, but the DPL results framework, for reasons of timing, does not permit an assessment of the impact of the new insolvency rules.⁴⁹ Other objectives, such as transparency, have proceeded more slowly than expected.

Guatemala has steadily moved forward in regulation and supervision to strengthen and broaden its financial sector. One indicator is the generally good record in implementing the recommendations of the FSAP and the FSAP update. Sustainability is likely for the improvements in bank regulation and supervision and the government/central bank debt market supported by the DPLs. Effective implementation of the Moveable Guaranty Law will be more difficult.

India—Nature of Crisis

India's situation at the time of the crisis resembled those of the countries discussed above, with slowed, albeit positive, GDP growth from late 2008, which declined 3–4 percentage points. Credit growth also declined, however, in the

context of exceptionally rapid growth in preceding years.⁵⁰ Banks' vulnerability to global deleveraging had increased. By 2007–08, India's corporate sector was funding a quarter of its needs externally. The crisis was also transmitted through a slowdown in exports and manifest by a significant decline in stock market valuations, a spike in interest rates, and a mini run on one of the large banks. However, total external debt was significantly below middle-income country averages, and reserves were high.⁵¹ As above, Indian banks had been largely sound and well-capitalized before the crisis.⁵²

India—Bank Response: Capital Buffers

The objective of India's Banking Sector Support Loan, a \$3 billion programmatic operation with a first phase of \$2 billion, was to provide support to the government to maintain its economic stimulus program.⁵³ The program mainly supported building capital buffers for public sector banks to help maintain quality credit growth and absorb a crisis-related increase in nonperforming assets. The loan, requested in December 2008, was approved in September 2009 and disbursed in April 2010; it was apparently delayed at the request of the government.

The operation was not unique in supporting precautionary capital buffers—the loan to Colombia, with similar capital ratios in the banking system, also supported this. However, India was unusual in singling out one segment of the banking system (public banks) for such precautionary buffers, and also in achieving this by public (government or World Bank) transfers of resources. Capital buffers in Colombia were achieved by raising prudential norms. Other prior actions acknowledged the government's FSAP self-diagnostic, central bank liquidity support measures and incremental steps taken to strengthen prudential norms and improve risk management and governance at public sector banks. However, these steps would have been taken by the government in any event.

India—Outcomes: Stabilization and Strengthening

IEG reviewed the extent to which this operation helped stabilize the financial sector during the crisis, or strengthen it in the medium term. Officials state clearly that, in terms of market stabilization, the signaling of Bank support to domestic and external markets was critical, and they maintain that an IMF program would have had the opposite effect.

The relevance of the loan for strengthening the financial system in the crisis is less clear. The capital of all the state banks before the recapitalization was above Basel guidelines and the central bank's regulatory requirements. The government expressed a need for additional capital for the state banks, mainly as a precautionary infusion, to maintain credit growth (especially in view of some decline in private bank lending)

and to avert potential consequences of a possible future increase in nonperforming loans caused by the crisis. Yet the central bank had been concerned about overheating in the years just before the crisis and had introduced measures to constrain credit growth (such as higher risk weighting, higher provisioning, and tighter exposure limits). It did not mention a need for precaution against increased nonperforming loans.

Another reason for raising capital was that with Basel II approaching, and a desire to preserve the government's 51 percent ownership stake, the government wanted to raise not only overall capital but specifically the share of tier 1 (owner's equity).⁵⁴ Although banks could have raised capital on the markets or issued new equity, this would have been counted as tier 2 and diluted the government's share.⁵⁵ Finally, specific or performance-related reasons for additional capital may have existed, as at the Industrial Development Bank of India, the largest recipient of capital, and the Bank of Maharashtra, another recipient, both partly related to their mandate as public banks. These factors were not explored. Although the Bank enjoyed a rich dialogue with India's financial sector, the focus in the run-up to the crisis was significantly on issues relating to depth and outreach, rather than risk or efficiency, likely because of increasing self-diagnostic work by Indian authorities.

Another contribution of the loan was to the government's economic stimulus program. India did not borrow from other sources for the crisis. Yet the loan size was small relative to the government's fiscal stimulus of 2 percent of GDP, and miniscule compared to India's foreign exchange reserves.⁵⁶ India's central bank had tools for managing crisis effects (monetary easing through liquidity windows, interest rate cuts, and regulatory forbearance) and noted an unclear rationale for the loan. The government acknowledged that the low cost of IBRD funding may have contributed to its benefits from the point of view of debt management, but the signaling effect was more important.

Overall, it seems that signaling effects were the greatest contribution during the turmoil of the crisis. Bank soundness was not a major worry, and to the extent that banks' capital positions needed to be shored up, this was caused by a mixture of short- and longer-term reasons. Opportunities for more detailed engagement in the banking system may have been lost. From a fiscal point of view, the funding contribution, though not large, was a help, given its low cost.

Conclusion

Most of these loans were easily prepared, in some cases because lending operations were already under preparation and in others because they were based on a continuation or deepening of a medium-term reform program already under

way. Some known vulnerabilities also were addressed, such as Colombia's pyramid schemes and Morocco's nonperforming microfinance loans. To design and implement a meaningful program of policy reforms requires time, and the DPLs prepared during the crisis could at best support reforms already under way. A crisis loan vehicle focused on short-term fiscal support without the need to present reforms unrelated to the crisis as justification may have been more appropriate.

Comparisons with Pre-Crisis Financial Sector Policy Lending

Three countries selected for in-depth review—Egypt, Guatemala, and Morocco—have also been selected by IEG for a detailed Project Performance Assessment Report of pre-crisis financial sector operations that took the form of financial sector adjustment loans. All three countries' financial sectors were relatively resilient to the global crisis, in part because of previous reforms supported by Bank lending. Needs at the time of crisis, therefore, arose largely from fiscal and balance of payments aspects.

A comparison suggests some differences in the relevance and effectiveness of lending, though patterns are variable (appendix C, section 5). Some crisis loans were based to a larger degree on previous reform agendas, many in the areas of access to finance and increased financial depth, or on operations already under preparation. They typically included further improvements in process, especially supervision, although they were of limited relevance for stability.⁵⁷ Fresh diagnostics were neither numerous nor urgently needed. By contrast, most pre-crisis loans were based on strong prior engagement, and they supported more fundamental changes in laws, regulations, and financial infrastructure.

The Content of World Bank Support: Lines of Credit

Overview of Financial Sector Lines of Credit (FY09–10)

FILs accounted for almost a third of the Bank's crisis period financial sector lending. FILs are loans arranged as lines of credit from financial intermediaries to private borrowers via participating financial institutions. Such loans enable outreach to entities unable to borrow directly from the Bank. In principle, they build project appraisal and management capacity in participating intermediaries. Sixteen FILs were approved in 11 countries between June 2008 and June 2010, amounting to \$3.8 billion, a significant 31 percent of total financial sector commitments on a weighted basis. Some were initiated specifically in the context of the crisis (Armenia, Bosnia and Herzegovina); others, although already envis-

aged, were modified, accelerated, or increased because of the crisis (Croatia, Moldova, India SME, and India Infrastructure Finance Company Limited).⁵⁸

The stated objectives of 10 of the 16 FILs were to increase bank credit to those private sector groups most affected by the crisis: SMEs, exporters needing trade finance, and rural businesses and cooperatives (appendix C, section 7, table C.13). Such differentials in access are plausible, although there is limited concrete evidence. In a review of FILs for SMEs and exporters in this period, only two program documents provided such information.⁵⁹ There was, however, an overall decline in credit growth in most countries receiving FILs (appendix C, table C.12). Other loans were less crisis related or were unrelated—the FILs to provide finance for infrastructure in India and Bangladesh, energy efficiency in China, and mortgage lenders in Tanzania. Most relevant among these is the India Infrastructure FIL, which had been under consideration for some time but was accorded greater priority because of the crisis. Its size doubled from \$600 million to \$1.2 billion.⁶⁰ The Bangladesh operation too was scaled up from \$50 million in its first phase to \$257 million.⁶¹

FILs by design are slow-disbursing instruments, *prima facie* not ideally suited to crisis response. A first question is their effectiveness in the crisis in terms of speed of processing and disbursement. A second is their relevance—whether they were appropriate to the country contexts and the extent to which they served longer-term developmental needs.

Lines of Credit and Crisis Response: Relevance and Speed

A first indication of countries' needs for FILs in the crisis is the lag between approval and effectiveness. Most FILs during this period were declared effective between four and eight weeks after Board approval (Armenia, Bangladesh, China, Egypt, India Infrastructure Finance Company Limited [IIFCL] and India SME Finance, Moldova, Turkey), although a few were longer. The lag in the India Scaling-Up Microfinance Project was 11 weeks, and Croatia and Bosnia and Herzegovina took 16 and 27 weeks, respectively (table 3.3).⁶²

Some FILs approved during the crisis disbursed rapidly. The first additional finance for the Turkey Access to Finance for SMEs was fully disbursed within nine months of effectiveness, and a third of the second additional finance of the same project was also disbursed within nine months after effectiveness. The Armenian Access to Finance for SMEs FIL performed well, although below the expectations of the project team and the country; half of the funds disbursed within nine months after effectiveness.⁶³ More than one-third of the FILs in Croatia, Moldova, and the India SME Finance

BOX 3.2 CRISIS LINES OF CREDIT: USE OF ADDITIONAL AND REPEAT FINANCING

Two access to finance for SMEs projects in Turkey, totaling \$450 million, were additional financing to the original project approved in June 2006. A third line of credit in Turkey, the Second Access to Finance for SMEs FIL for \$500 million, was a repeat of the previous loan using different borrowers. Similarly, the \$400 million India SME Finance and Development FIL was additional financing for a project originally approved in November 2004 for \$120 million. The Moldova Competitiveness Enhancement FIL was based on a project originally designed to enhance competitiveness of enterprises and did not have a line of credit. The Bangladesh infrastructure line of credit was also a scale up of a previous operation.

Sources: World Bank Project Appraisal Documents.

and Development FIL were disbursed within the first year after effectiveness—rapid by line-of-credit standards. However, several had little or no disbursement within the first 12 months, including the large infrastructure lines of credit in India and Bangladesh, the SME loan to Egypt (scaled up from \$50 million to \$300 million), the Scaling-Up Microfinance loan to India, and the Bosnia and Herzegovina SME access project.

Certain factors appear to increase the propensity for rapid disbursement. One is the experience and capacity of the financial institution receiving the loan and its familiarity with Bank

processes. Reopening previously successful projects helps meet these criteria (box 3.2). Rapid utilization of the two Turkey additional finance lines of credit can be attributed largely to the experience of Halkbank, the borrower and sole participating financial institution (PFI), and to its wide network of branches. The SME finance loan to India, which disbursed nearly \$80 million immediately after effectiveness and a further \$50 million in the next four months, shared this advantage. In this case too, there was a single apex institution that undertook on-lending directly. From a developmental perspective, however, the absence of PFIs can limit learning effects.

TABLE 3.3 Disbursement of FILs Approved during the Crisis

Country/Project	Loan/ Credit US\$ millions	Approval date	Approval to effectiveness (weeks)	9 mo. %	12 mo. %	To March 31, 2011 %
Armenia Access to Finance for SMEs	50	02/24/2009	7	50.3	50.3	60.0
Bosnia Enhancing SME Access to Finance	70	12/15/2009	27	0.2	4.0	12.0
Croatia Export Finance Intermediary Loan	141	08/04/2009	16	15.3	37.4	62.8
Moldova Competitiveness Enhancement Additional Financing	24	10/29/2009	4	15.2	30.3	56.2
Moldova Rural Investment (RISPII) Additional Financing	10	05/14/2009	4	19.8	35.4	61.7
Turkey Access to Finance for SMEs Additional Financing 1	200	12/09/2008	5	90.7	100.0	100.0
Turkey Access to Finance for SMEs Additional Financing 2	250	12/15/2009	5	32.5	32.5	77.2
Turkey Second Access to Finance for SMEs	500	06/15/2010	8	22.3	—	22.3
Egypt Enhancing Access to Finance for SMEs	300	03/09/2010	2	0.3	0.3	0.3
India Infrastructure Finance Co. Ltd	1195	09/22/2009	6	0.3	0.3	1.6
India SME Finance and Development Additional Financing	400	04/30/2009	5	32.5	38.0	67.9
India Scaling-Up Microfinance	300	06/01/2010	11	0.2	—	33.0
Bangladesh Investment Promotion Additional Financing	257	05/04/2010	5	0.0	0.0	0.0
China Energy Efficiency Financing II	100	06/22/2010	7	0.3	—	0.3
Nicaragua Second Agricultural Technology. Additional Financing	10	05/10/2010	—	0.0	0.0	0.0
Tanzania Housing Finance Project	40	03/09/2010	45	0.0	1.0	1.0

Source: World Bank data.

Note: FIL = Financial Intermediary Loan.

Adjustment of design to crisis needs clearly helped. The rapid disbursement of Croatia's FIL partly reflects the prequalification of lending banks so they were ready when the loan was approved. In Armenia, following initially slow disbursement, the central bank clarified that farmers and sole proprietors were among the eligible SMEs (box 3.3).⁶⁴ In the Small Industries Development Bank of India SME loan in India, a new focus on working capital was included, including allowing receivable financing and encouraging refinancing. In Turkey's additional finance crisis project, there was a single experienced government-owned PFI, whereas the original operation had also included a private bank, Industrial Development Bank of Turkey.⁶⁵

From a quick disbursement perspective, this probably had benefits. Although the use of this type of government-owned PFI may make sense in a crisis situation to expedite disbursements, such arrangements do nothing to provide access to long-term funds for private banks, which would be an incentive for these banks to increase lending to underserved sectors. Turkey did, however, find other opportunities to phase in their participation.⁶⁶ And loans to exporters, extended in foreign exchange to a smaller number of larger agents, appear to have disbursed more rapidly, as in Croatia and in the Moldovan Additional Financing and Restructuring of the Competitiveness Enhancement Project.⁶⁷

Yet some lines of credit did not disburse at all.⁶⁸ One factor for some is that infrastructure operations are typically larger in scale, more lumpish, often require multiple sponsors, and need more preparation, especially in areas such as safeguards (box 3.3). Newness and idiosyncratic design features are also factors. In the India IIFCL, the sole apex entity was a newly established public sector infrastructure bank, set up by the government in 2006, which did not have the insti-

tutional capacity to handle such a project.⁶⁹ Although some disbursement is anticipated in 2011, restructuring and some cancellation are under active consideration. In Bangladesh, the project team points out that there is an active pipeline today. In the previous phase of this operation, the loan had no disbursements in the first 18 months, but rapid disbursement thereafter that enabled it to finish ahead of schedule.

Lines of Credit: Effectiveness and Longer-Term Development

Compliance with OP 8.30

All the FILs under review broadly comply with Bank requirements in Operational Policy (OP) 8.30 regarding objectives, coordination with IFC, on-lending rates, eligibility criteria for PFIs, and use of Bank funds (box 3.4). FILs in which an apex institution lends to private PFIs tend to undergo a full review of compliance. This suggests an improvement over previous Bank experience.⁷⁰ However, FILs intermediated through first-tier government-owned PFIs had a somewhat less full review.

Even if lines of credit disbursed rapidly by their own standards, were they the right instrument in countries affected by immediate crisis? In Armenia, although the FIL disbursed well relative to similar loans, it did not meet the crisis objective of providing immediate local currency liquidity to creditworthy companies. This objective may have been better served through a DPL. And as with IIFCL, the Armenian central bank project implementation unit had been able to more swiftly disburse line of credit funds from other donors (the German-Armenian SME lending window, for example) with less onerous processing requirements.⁷¹

As line of credit projects have yet to close, the achievement of long-term targets, such as outreach to subborrowers, is

BOX 3.3 LINES OF CREDIT IN CRISES: BANK PROCESSES

First-time intermediaries in Armenia, Croatia, and India (IIFCL) encountered some difficulties with procurement, for example, because of confusion about whether Bank procurement guidelines apply when lines of credit are on-loaned to private enterprises. Bank guidelines provide for procurement to be conducted in accordance with established private sector procurement methods or commercial practices, and for private borrowers, there is no requirement for procedures to be fully aligned to the Bank's procedures.

Another process concerns the purchase of second-hand equipment, not financed, in principle, for public sector operations because of associated risks. However, for small private sector subborrowers it may be a financial necessity, and financing is not declined. Better information for project teams on these issues would be helpful. Environmental and social safeguards appear to be a greater issue, especially for infrastructure projects, which may have led to arbitrage between the Bank and other sources of finance. The IIFCL showed that a parallel ADB line of credit had no difficulty in disbursing, suggesting that complying with Bank processes is more difficult.

Sources: IEG country case studies.

BOX 3.4 BANK-IFC COOPERATION IN FINANCIAL INTERMEDIARY LENDING

One requirement of the Bank's OP 8.30 is that, in countries where the Bank and IFC are both active in the financial sector, they coordinate the nature and design of their activities. The Bank should be doing policy-relevant FILs, and IFC should be doing market-based FILs; IFC has the right of first refusal.

In 5 of 14 FILs under review, the appraisal document briefly mentions cooperation between the Bank and IFC during project preparation, but without any specificity about the areas or purposes of cooperation. For example, there is no indication of cooperation in the two additional financings for the Turkey Access to Finance for SMEs Project; and IFC only figures in the original operation in connection with a known partner. The Armenia and Croatia Project Appraisal Documents mention that the Bank and IFC operations are being coordinated, but with little further detail.

In at least eight of the FILs reviewed, there was broad compliance with OP 8.30 in terms of cooperation with efforts to reduce duplication or conflicts of interest between the Bank and IFC, as in the Bosnia and Herzegovina Financing SME Access to Finance and in the Moldova Competitiveness Enhancing Project. In the India Financing Public-Private Partnership in Infrastructure Project, the Bank prepared conflict mitigation guidelines after consulting the World Bank Group Conflict of Interest Office. One Project Appraisal Document, for the Nicaragua Second Agricultural Technology, refers to the Bank obtaining assurances of IFC's lack of interest in the sector. In other projects, coordination focused on finding areas where IFC would provide technical assistance: Egypt Enhancing Access to Finance for SMEs, India Microfinance Scaling-Up, and Bangladesh Investment Promotion and Financing.

Source: IEG survey of 14 crisis-related FILs approved in FY09–10.

available for just a few country programs.⁷² The rest of the discussion on sustainability focuses on institutional arrangements and other aspects.

Government versus Private On-lending Arrangements with PFIs

About half of the FILs reviewed are intermediated through an apex institution that lends to selected private PFIs that on-lend to private subborrowers. In the other half, a government-owned first-tier PFI lends directly to subborrowers and therefore does not help motivate private banks to increase lending to underserved sectors.⁷³ If private PFIs are intermediaries, they can be helped to gain confidence in SME lending as a profitable business.⁷⁴ Ten of the 16 projects reviewed had technical assistance to improve their credit appraisal processes, and in one case (India) to help create a commercial credit bureau and an SME rating agency.

Apex Arrangements—Central Bank or Government

The Central Bank of Armenia is the apex in the Armenia Access to Finance for SMEs Project, implementing the project through a unit that has experience intermediating loans from other donors, including the German Development Bank (KfW), EBRD, and United States Agency for International Development. Similarly, the Central Bank of Bangladesh,

which has a strong record of successful project implementation, is the apex for the Public-Private Partnership Facility Project and lends to PFIs with the technical support of its Investment Facilitation Agency. Although both central banks have the needed experience, the use of a central bank as the borrower and on-lender mixes up monetary policy with targeted lending and adds risk to the central bank balance sheet through currency exposure. Although in the circumstances the alternatives were limited, especially in Armenia, it would be more appropriate from a developmental perspective—capacity permitting—for governments to be the borrowers, on-lending through selected financial intermediaries.

Before concluding, it must be noted that the Bank's lines of credit were attractive because of their favorable terms during the crisis, especially their longer maturities. In Armenia, the on-lending rate of 8 percent compared to a five-year government bond rate of 15 percent. In India, the lack of participating financial institutions in the first Small Industries Development Bank of India loan (2004) was attributed in part to unattractive costs. During the crisis, the Bank was cheaper than before and compared with prevailing alternatives. Appendix C, table C.14, shows the terms under which credit was offered by FILs; it illustrates the relatively low cost of Bank funds and raises the question of its usefulness for countries that have access to markets, at least outside a crisis.⁷⁵

4

IFC and MIGA Crisis Support to the Private Sector

The global economic crisis originated in the financial sectors of advanced economies and spread to the financial sectors of developing country economies, as described in chapters 2 and 3. Developing country private sectors—especially banks, other financial institutions, and SMEs—in some cases faced an exchange rate or banking crisis; in other cases, withdrawal of private capital, drying up of local currency funding, and cutoff of external capital market access; and in yet other cases, heightened financial stress, including increased borrowing costs and shortened maturities.

This chapter on evaluation of support to the private sector by IFC and MIGA focuses on the financial sector, where most of the support was provided. The chapter describes IFC and MIGA strategies and the intended results. It assesses the extent to which each institution was able to deploy its financial capacity, knowledge base, and business development in a timely and well-designed fashion. Finally, it provides a real-time evaluation of the effectiveness of the responses of IFC and MIGA, in terms of strategic relevance, early outcomes, and the sustainability of interventions.

Overall Findings

IFC's crisis response was mainly through new global initiatives, including the creation of a new subsidiary. The new platforms targeted trade finance, bank capitalization, distressed assets management, infrastructure, microfinance, and establishment of the Asset Management Company. The decision to leverage partnerships and funding by launching new platforms was innovative, but IFC took time to accommodate partners, create legal documents and processes, and select managers, which led to low utilization. The Global Trade Liquidity Program and the Global Trade Finance Program were successful, when assessed against criteria of relevance, financial targets, utilization, and speed of implementation. The Bank Recapitalization Fund was modestly successful in meeting its financial targets, but the Microfinance Enhancement Fund and the Debt and Asset Recovery Program and Infrastructure Crisis Facility initiatives lagged behind their targets. It is too early to assess the

outcomes and impact of the Advisory Services effort, as this sought to address medium- to long-term issues.

The Global Trade Finance Program and the Global Trade Liquidity Program leveraged and built on IFC's strategic strengths—global and local knowledge of financial markets and the institution's AAA credit rating—to alleviate potential trade finance shortages. The programs helped SME clients—in the programs' focus countries, such as Azerbaijan, Armenia, and Bosnia and Herzegovina—whose needs might not have been met otherwise.

The other global initiatives had mixed results. The Bank Recapitalization Fund, the Microfinance Enhancement Fund, and Debt and Asset Recovery Program initiatives were modestly successful, but the Infrastructure Crisis Facility struggled. The Risk Management and Nonperforming Loan Advisory Services identified a genuine gap in financial stability by building capacity for the implementation of better risk management and nonperforming loan disposition. Although it is too early to assess the effectiveness of the initiatives, given the longer-term nature of the issues they are trying to address, in-depth engagements with a few banks and regulations in Ukraine provide a platform for impact going forward. The initiatives were promoted as complementing the Debt and Asset Recovery Program and Bank Recapitalization Fund, but there is little evidence of collaboration at this point.

Regarding IFC's financial sector projects during the crisis, a significant portion (33 of the 50 projects sampled) was identified as crisis response projects. But

only a few projects were likely to have a systemic impact. The majority of the investments did not target crisis countries or systemic banks. IFC did not appear to distinguish between the urgency of providing immediate funding to sectors adversely affected by the crisis and medium- and long-term development objectives, such as access to finance for select sectors, such as SMEs and energy efficiency financing.

IFC introduced a set of measures to protect its portfolio.

There was a significant gap between the predictions of IFC's original stress tests and the more modest nonperforming loans that have materialized so far. The discrepancy probably reflects the combination of (i) limitations of the tests themselves; (ii) proactive and preventive actions by IFC to protect its portfolio; and (iii) the less-than-expected severity of the crisis in developing countries in part because of the unprecedented global response to it. Because the results of the stress tests had a significant impact on IFC's behavior during the crisis, it is important to gain a deeper understanding of the reasons behind the wide disparity.

MIGA's overall response was strongly strategically relevant to the crisis but deficient in the volume of guarantees underwritten. MIGA could clearly have done more in comparison with other providers of political risk insurance and in terms of its own capital availability.

MIGA's crisis support has proved to be economically sustainable to date. Banking systems in Europe and Central Asia have been recapitalized, and bank lending is exhibiting positive growth, thereby contributing to economic recovery in host countries. However, continued instability in Europe poses challenges to sustainability, given the strong presence of major European banks in the region. MIGA's business development has been tested by the crisis, however, and the jury is still out on its capacity to deliver.

IFC's Response

IFC's crisis response strategy had several elements: review and defend IFC's portfolio; strengthen IFC's balance sheet, with a focus on equity; make organizational changes in IFC in setting up a contingent plan in the special operations department for additional resources as needed; begin regional initiatives (especially in Eastern Europe); shift advisory services to risk management and nonperforming loans resolution; focus on liquidity (trade finance); and continue to focus on IDA countries.

IFC's crisis response strategy sought to address areas of vulnerability resulting from the crisis. The crisis erupted in the financial sector, and therefore IFC sought to foster

the availability of trade and infrastructure finance, the recapitalization of financial institutions, and the resolution of troubled assets. Advisory services in risk management and the resolution of nonperforming loans complemented the financial interventions.

IFC deployed several instruments—loans, quasi-equity, quasi-loans, equity, guarantees, and client risk management—but it did not ramp up the volume or increase the risks of its investments. Although IFC increased its commitments slightly later in the crisis after retrenching in FY09, it maintained a similar risk profile. The financial sector was an important component of IFC's crisis response. Of the \$26.9 billion that IFC invested between FY09 and the third quarter of 2011, around 63 percent or \$16.9 billion was in the financial sector.¹ IFC's financial sector investments are mostly in the banking sector: trade and housing finance are growing, whereas investments in nonbank financial institutions remain small. The slight increase in the level of nonperforming loans in this crisis—4.2 percent of IFC's portfolio—is in contrast with 16–18 percent nonperforming loans in previous crises. IEG could not attribute the low level of nonperforming loans entirely to IFC's measures to protect the portfolio, as other factors, including the more modest impact of the crisis, may have played a role.

IEG's Methodology

Methodology. The evaluation covers all IFC investment projects² underwritten as part of the Financial Crisis Response and Recovery Initiative and all the advisory projects under the Access to Finance Advisory Services. To the extent possible, IEG reviewed the objectives, intended results, and actual results of IFC's response initiatives, including the Global Trade Finance Program, Global Trade Liquidity Program, Microfinance Enhancement Fund, Debt and Asset Recovery Program, Infrastructure Crisis Facility, and Bank Recapitalization Fund. IEG looked at the appropriateness of these initiatives; the results achieved relative to the targets, including unintended consequences; the evaluability of the interventions; and the quality of the monitoring and evaluation arrangements. The assessment drew on data from relevant strategy and policy documents, board documents, and IFC databases, as well as interviews with task team leaders and their managers.

In its evaluation IEG reviewed all 13 individual investment projects under the Debt and Asset Recovery Program, 6 under the Bank Recapitalization Fund, and 2 under the Infrastructure Crisis Facility, focusing on relevance, systemic impact, speed of response, outputs, preliminary outcomes, IFC's role and contribution, and partnership and coordination with other IFIs and donor agencies. The assessment was

guided by a standard set of questions and was based on data from relevant project documents, including board documents, project supervision reports, and Development Outcomes Tracking System documents (there were no project supervision reports, because these projects were quite new), as well as assessments of stress in client countries. The Microfinance Enhancement Fund, treated as a single IFC investment project in the absence of detailed individual transactions, was assessed the same manner.

The evaluation also assessed advisory projects under the Access to Finance (A2F) Advisory Financial Crisis Response and Recovery Initiative using the previously stated methodology. IEG's assessment is based on interviews and relevant documents, including board reports, project data sheet approvals and investment reviews, Development Outcomes Tracking System documents, and project supervision reports; the assessment is supplemented by interviews with task team leaders and their managers and assessment of efficiency and cost-effectiveness. The assessment covered the Risk Management and Nonperforming Loan Advisory Services projects in Europe and Asia.

This chapter uses an objectives-based methodology, adapted to capture dimensions such as the systemic relevance of investments, speed of response, and IFC's role and contribution³ to the World Bank Group response. IEG reviewed investment supervision reports and the Development Outcomes Tracking System to assess early outcomes and results. There were no outcome data in the projects sampled, as the projects are recent and it is too early to judge the expected development outcomes. This IEG evaluation seeks to address four sets of questions:

- **Strategic relevance.** Was this the right project at the right time? How appropriate was it, given the economic and financial situation when the work was initiated? Did it make sense, given the conditions, needs, and problems to which it was intended to respond? Was it consistent with the crisis priorities in systemic or vulnerable countries? To what extent did it help to stabilize systemic banks? Did it help to restore or maintain stability in the financial system?
- **The speed of intervention.** Were the projects originated and approved in a timely fashion? Were the disbursements timely?
- **IFC's role and contribution.** Did IFC's intervention offer additionality (innovation and demonstration effects) or attract additional financing?
- **Partnerships.** Was there coordination with the World Bank, IMF, other IFIs, and donor agencies?

IFC's New Platforms, Partnerships, and Global Initiatives

This section discusses IFC's new global initiatives. For each initiative, the purpose, scope, and activities of the program are described, followed by analysis of its effectiveness and presentation of the data used. Table 4.4 offers a typology of criteria applicable to initiatives.

Global Trade Finance Program

Background. During financial crises private corporations have found it increasingly difficult to obtain trade financing, both from international financial markets and their own domestic financial institutions (World Bank 2009c). IFC and the World Bank recognized the problem during the East Asia crisis in the late 1990s and the Argentine economic crisis in the early 2000s, when they improvised limited support with lines of credit. As a consequence, IFC recognized that it needed to establish platforms to support trade finance in advance of stresses in the financial system. Therefore, the Global Trade Finance Program was designed in 2004; it became operational in September 2005. Through the Global Trade Finance Program, IFC extends guarantees to international banks in relation to the risk they assume through (i) the confirmation of letters of credit issued by local banks and (ii) pre-export finance extended to local banks that on-lend to exporters. The program has a structural component as well, building the institutional capacity of banks in developing countries in trade finance, as well as a cyclical component, offering counterparty guarantees in periods of increased credit risk.

Effectiveness. The Global Trade Finance Program ceiling has been raised several times. During the crisis, global trade volumes declined, but demand for the Program grew, passing the \$1.5 billion mark in loans outstanding in mid-FY10. In anticipation of tightening markets, the program ceiling was doubled to \$3 billion in December 2008.⁴ The numbers in table 4.1 exhibit the steady growth of the program throughout the crisis years. In addition, figure 4.1 shows that IFC has consistently exceeded its Global Trade Finance Program commitment objectives every year since fiscal 2009.

IFC and IEG have not yet established an agreed methodology, or a list of indicators, to assess the development impact of the Global Trade Finance Program. However, in addition to its growth, the program has the following positive attributes:

- South-South regional flows increased. In 2009, the volume of intraregional trade supported by the Global Trade Finance Program was \$602 million—113 percent larger than in 2008—driven mostly by Latin America and the Caribbean and the Middle East and North Africa,

Indicator	FY08	FY09	FY10
Program ceiling (US\$)	1 billion	3 billion	3 billion
Issuing banks (cumulative)	119 banks	176 banks	209 banks
Utilization rate for issuing banks (%)	66	78	79
Confirming banks (cumulative)	138	176	206
Number of trades (per year)	1,008	1,869	2,811
Volume (US\$ billions)	1.45	2.4	3.46
Claims paid	0	0	0

Source: IFC.
Note: GTFP = Global Trade Finance Program.

although it must also be noted that the program ceiling was increased by 200 percent over the same period.

- The number of issuing banks and confirming banks grew steadily, as did the utilization rate.
- The share of transactions that were lower than \$1 million (considered small and medium enterprise transactions⁵) was 83 percent as of June 30, 2010.

Global Trade Liquidity Program

Background. The Global Trade Liquidity Program mobilizes funding from IFC and its partners to fund trade finance in individual banks. The Global Trade Liquidity Program’s aggregate funding was \$4.076 billion as of January 31, 2010.⁶ The funding is channeled through global, regional, or local banks⁷ with a strong reach in trade finance in their respective markets. IFC seeks to include Global Trade Liquidity Program banks with active trade networks and therefore selects banks that ensure complementary coverage and extensive reach.

Design. The Global Trade Liquidity Program takes a portfolio approach, investing in pools of funded trade investment instruments confirmed by the proposed banks and issued by emerging-market banks for up to \$1 billion or up to 40 percent participation with a maturity of two to three years. The remaining 60 percent is held by participating banks. The Global Trade Liquidity Program accepts letters of credit with a maximum maturity of 365 days, although average maturity is 90–120 days. The Global Trade Liquidity Program is a price taker: the price for trade finance is market based, driven by the underlying premiums that the utilizing banks charge to support trade transactions in emerging markets. IFC supports the incremental demand that financial institutions cannot, or are unwilling to, underwrite on their own because of various factors, including sovereign or individual exposure credit risk limits. The program shares pro rata fees

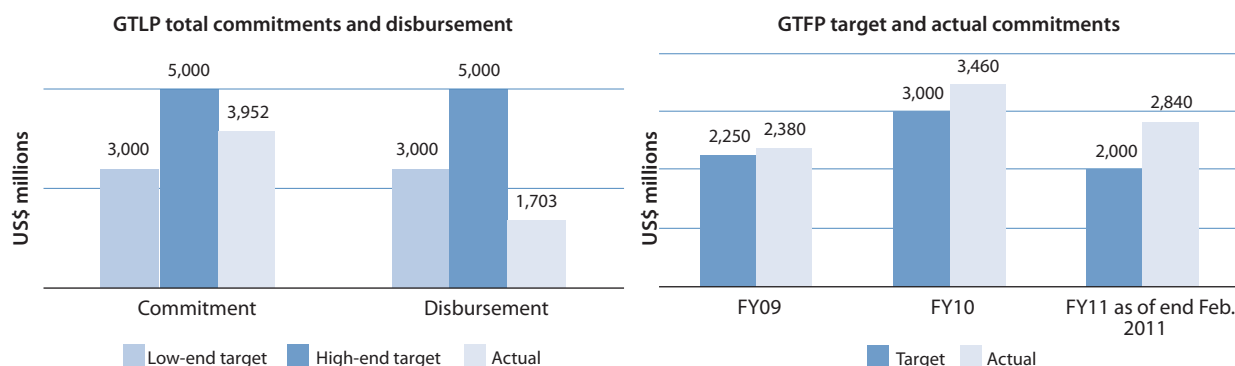
with the partner banking institutions. IFC staff estimates that the program contributed to trade estimated at \$12.8 billion a year (assuming two rotations), and the Global Trade Liquidity Program will finance approximately \$45 billion of emerging-market trade.

Effectiveness. The Global Trade Liquidity Program is recognized by the financial community as a unique public-private partnership that contributed to revitalizing global trade finance. The Global Trade Liquidity Program received several awards. Three leading global publications, *Global Trade Review*, *Trade Finance*, and *Finance Asia*, have recognized the collaborative efforts of Global Trade Liquidity Program partners and participants with “Deal of the Year” awards. In June 2010, The IFC Trade Finance team, comprised of the Global Trade Liquidity Program and the Global Trade Finance Program, received the first-ever special editor’s award from *Trade Finance* magazine.

However, there were delays in the program launch. Official partners needed more time to obtain final authorization and allocate funds from their authorities, and, as a new product, the Global Trade Liquidity Program needed an operational ramp-up period. In addition, banks issuing the product had to develop systems and train people to manage it (table 4.4). As a result of the slower-than-expected implementation of the facility, the target disbursements of \$1.5 billion–\$2.5 billion were not met in FY09. Once the initial stumbling blocks were overcome, the program met its targets. In FY10 actual disbursements reached \$1.5 billion. As of the third quarter FY11, actual disbursements of \$1.7 billion were trailing behind target disbursements of \$3 billion–\$5 billion (figure 4.1).

Disbursements are lagging compared to expectations for several reasons. First, the projections were predicated on a more prolonged crisis. The demand for liquidity support for trade finance has declined as risk aversion has declined,

FIGURE 4.1 Target and Actual Commitments and Disbursements of GTFP and GTLP, FY09–11 (FY11 as of end of March 2011 for GTLP)



Source: IFC.

Note: GTFP = Global Trade Finance Program; GTLP = Global Trade Liquidity Program.

and liquidity has been restored in the system. Second, phase one (liquidity) of the program is winding down, because of partner U.K.'s Department for International Development (DfID) termination dates being reached (DfID terminated its funding in February 2011), funded facilities being replaced with unfunded ones to target Africa specifically (Commerzbank), or new unfunded facilities (Intesa) set up for particular regions (Eastern Europe). In sum, the global support through liquidity is being substituted with regional and therefore smaller facilities, many of them on an unfunded basis.

Bank Recapitalization Fund

Background. IFC established Bank Recapitalization Fund, a private equity and subordinated debt fund, to support banks in emerging-market countries in February 2009. The fund provides banks with tier 1 equity and tier 2 subordinated debt aimed at strengthening their economic and financial stability. It consists of two parallel investment vehicles, the equity vehicle (Equity Fund) and subordinated debt vehicle (Sub-Debt Fund), with a capital commitment target of up to \$5 billion and a first closing of \$3 billion. IFC would invest up to \$775 million in the Equity Fund and up to \$225 million in the Sub-debt Fund. The Japan Bank for International Cooperation committed up to \$500 million to the Equity Fund, and \$1.5 billion to the Sub-Debt Fund. IFC estimated that a fund of \$3 billion would have a leveraged impact of around \$75 billion in intermediating lending, as others co-invest with the fund, and that banks receiving capital would be able to lend to their clients at greater levels. In smaller economies these amounts could have a significant effect on the banking system and economy and help reduce the impact of the crisis on the poor.

Design. The Bank Recapitalization Fund was presented to the Board as a private equity and subordinated debt fund and was approved in December 2008, with a target commitment of up to \$3 billion (scaled down from an original target of \$5 billion). The project was committed in February 2009.

Effectiveness. Although the initiative has considerable strategic relevance, the results to date are mixed. Four of six⁸ recapitalization projects are satisfactory in terms of supporting a systemic bank. However, in most instances, the facilities are too small to have a systemic influence (appendix D, table D.1). Although Asia was not affected severely by the crisis, the impact of the intervention is illustrative of a successful intervention: the large IFC investment strengthened confidence in the banking system, leading to higher valuations and more mobilization of equity (box 4.1). Two other countries where investments were made were not significantly affected by the global crisis. The funding for the transaction in the Africa Region took time.

Disbursements are below projections (figure 4.2). The Bank Recapitalization Fund got off to a slow start in FY09 because of the legal, personnel, and administrative formalities entailed in getting the Asset Management Company up and running. For example, the head of the Bank Recapitalization Fund was selected nine months after the job posting. Second, the Bank Recapitalization Fund needed to reach financial and commercial understandings with the Japan Bank for International Cooperation regarding prospective investments. Finally, the utilization of the Sub-Debt Fund was relatively low. It was originally envisaged that the demand for the Equity Fund would be accompanied by demand for subordinated debt (that is, sub-debt was only available if there was an Equity Fund investment and up to 133 percent of the equity

BOX 4.1 VIRTUOUS CYCLE IN ASIA

In early 2010 the capital increase of a large Asian bank was anchored by a \$150 million subscription by the IFC and the Asset Management Company Bank Recapitalization (Equity) Fund and a targeted \$100 million from institutional investors. As a result, its tier 1 capital adequacy ratio rose and Moody's affirmed its financial strength rating. IFC capital participation in the bank had a salutary effect on the entire banking system in the country. It led to higher valuations of banks in the country and permitted them to mobilize capital. Later the same year, Moody's Investors Service upgraded its credit outlook for the country's banking system from negative to stable.

amount). In practice, however, demand for equity and subordinated debt did not go hand in hand. There was considerable demand for equity capital but relatively little demand for subordinated debt. As of March 31, 2011, cumulative target commitments were \$2.8 billion, actual commitments were \$922 million, and actual disbursements were \$447 million.

Some investments were originated after the crisis was almost over, and in some cases the motivation for the investments is not evident. In FY09 the fund committed \$20 million in equity to a bank in Latin America. However, the capital ratio for the bank is adequate and slightly above that of the aggregate of private banks in the country (11.8 and 11.2 percent, respectively). In FY10 the fund committed a total of \$373 million in Europe, Asia and the Pacific, and Africa. Some projects were delayed, in one case because of delayed compliance with legal covenants and in another case because of protracted negotiation with a government shareholder. However, the facility has gained momentum: as of June 30, 2011, actual commitments were \$960 million and actual disbursements \$912 million. Furthermore, recent investments indicate that the program can have broader impact.

Bank Recapitalization Fund additionality is evident in most projects. There is no doubt that establishing the Asset Management Company and the Bank Recapitalization Fund was a creative approach that offers numerous advantages. The mobilization of funding from third-party investors allows IFC a much larger capacity and risk appetite than permitted by its prudent risk limits and capital constraints. Further, the Asset Management Company offers IFC a new venue for growth that is otherwise constrained by a strategic plan that limits the growth of IFC's commitments to 6 percent a year.

Debt and Asset Recovery Program

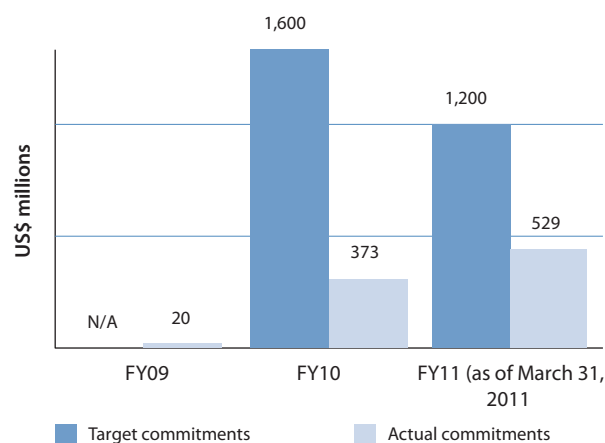
Background. Established in 2009, the Debt and Asset Recovery Program aims to reduce the level of distressed assets in banking systems by investing in specialized companies that manage and restructure pools of distressed assets. The program also invests indirectly through investment funds that focus on such assets and companies or co-invests with experienced investors. The program was expected to reach

\$4 billion–\$7 billion, with IFC contributing up to \$1.6 billion and other IFIs and private sector partners investing about \$5 billion over three years.

Design. The program offers complementary technical advisory services for nonperforming loan and risk management programs. Debt and Asset Recovery Program investment instruments are primarily a mix of debt, quasi-equity, and equity. All underlying investments are subject to board approval. The Debt and Asset Recovery Program plans call for a four-pronged approach to corporate debt restructuring, debt rescheduling, and distressed assets and nonperforming loans:

- Direct investments in strategically important private entities with a good business model that require corporate debt restructuring.
- Joint ventures that allow IFC to support systemic clients facing short- to medium-term liquidity or balance sheet constraints for refinancing, restructurings, and the like. This would include funds.

FIGURE 4.2 Targeted and Actual Commitments of the BRF, 2009–11 (US\$ millions)



Source: IFC.

Note: Based on revised targets with \$3 billion in funding, the targets in the Board documents were based on \$4 billion in funding.

BRF = Bank Recapitalization Fund.

- Direct IFC investments in nonperforming loan pools for retail, SMEs, and single corporate assets.
- Investments in specialized distressed asset management companies.

Effectiveness. The launch and implementation were delayed because of the need to coordinate with prospective partners as well as IFC's limited experience in handling distressed debt (table 4.4). The program has only recently reached the phase where transactions are ready for approval and commitment. The majority of the transactions were approved at the end of 2009 and the first half of 2010, and three approvals took place in 2011. IFC attributes the delay to competing interest in investments in Part I countries by investment finance institutions and private sector partners at the program level. In addition, in many markets, including Part I countries, main issues are lack of asset sales by banks unable to absorb capital charges and shortage of investors for more difficult markets.

Unable to mobilize interest at the program level, the Debt and Asset Recovery Program has been unable to meet its financing target (partnership investment three to five times the IFC investment). The program benefits from the cooperation of IFIs in regions where they have a strategic interest. Partners include other IFIs, such as the Netherlands Development Finance Company (two transactions), EBRD (three transactions), and the Austrian Development Bank, as well as several private sector players, such as the investors in two funds—the Emerging Europe Special Situations Fund and the Asia Debt Management Hong Kong Limited Central and Eastern Europe, Central Asia, and Turkey Recovery Fund.

The evidence on the Debt and Asset Recovery Program's performance is mixed. It is not evident that the Program has been supporting systemic companies or banks. To date, IFC has received Board approval for 16 projects for a total of approximately \$745 million for IFC's own account (14 in financial markets and 2 in the real sector). These projects span the IFC Regions of Latin America and the Caribbean, Europe and Central Asia, and Eastern Asia and Pacific. Of the approved projects, IFC has closed nine (seven in financial markets and two in the real sector).

Notable Debt and Asset Recovery Program partners include Standard Bank, CRG Capital, Asia Debt Management Hong Kong Capital, Southern Financial Partners, Varde, KG EOS Holding GmbH & Co., and Covinoc. During the crisis, some countries in emerging Europe, Eastern and Southern Europe, and the Commonwealth of Independent States were affected far more than others. In this context, investments such as the Emerging Europe Special Situations Fund hold

promise for the restructuring process. Other projects hold potential for systemic impact, investing in portfolios of defaulted loans versus focus on single asset restructuring. Although there might be a very limited demonstration effect, the projects do not appear to have had a systemic impact because of the continued “seller strike” on the part of banks that are unable to absorb the impact of sales of significant volumes of distressed assets on capital.

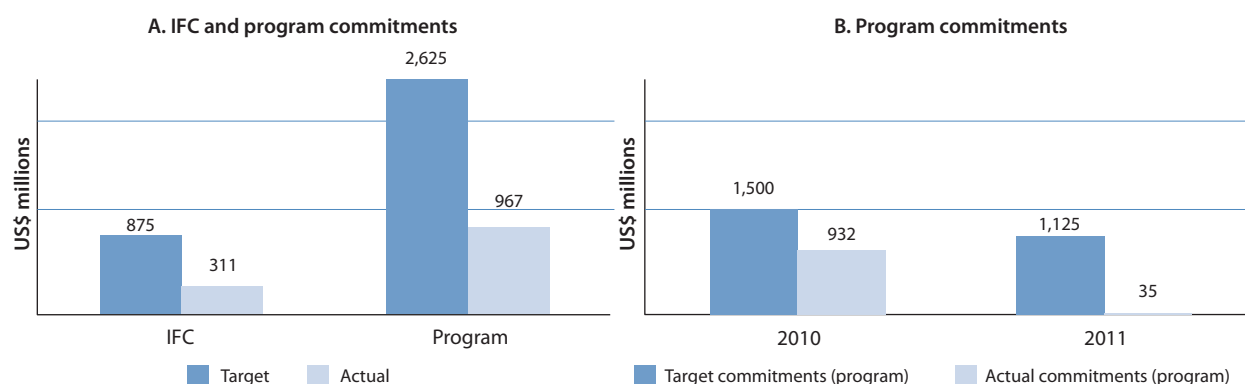
The Debt and Asset Recovery Program set targets for investing up to \$1.55 billion over three years to support recovery efforts (figure 4.3, panel B). The program envisioned mobilizing three to five times the IFC's investments from program partners, reaching \$6 billion–\$8.5 billion in financing. However, the program has not met the target for mobilizing partners' investments. Debt and Asset Recovery Program commitments and disbursements are lagging considerably behind targets. In addition, the program is slowing down (much larger commitment gap in the first three quarters of FY11 compared with the comparable period in FY10). To have an impact, the program needs to establish a record with demonstration effects that can be replicated.

There is interest in investing jointly with the Debt and Asset Recovery Program at the transaction level in Central and Eastern Europe, as reflected in the Emerging Europe Special Situations Fund and Asia Debt Management Hong Kong transaction where the general partners are putting capital at risk. However, there is no interest in cofinancing with IFC at the Debt and Asset Recovery Program level. Rating agencies and investment banks' reports advise that banks in Central and Eastern Europe have significant nonperforming loans but lack the urgency to remove them from the balance sheet just yet, in part because of the liquidity support provided by governments and central banks and regulatory forbearance.⁹ The banks still expect nonperforming loan prices to rise once the economies begin to recover. But as the economic recovery becomes increasingly remote, banks have discontinued lending and are reluctant to dispose of nonperforming assets at a loss.

Infrastructure Crisis Facility

Background. IFC established the Infrastructure Crisis Facility to bridge the gap in financing for private or public-private partnership infrastructure projects in emerging markets. The Infrastructure Crisis Facility ensures the availability of long-term debt to support private infrastructure projects affected by capital shortages due to the global crisis. The Facility sought to mobilize \$1.2 billion to \$10 billion (\$8 billion in debt, \$2 billion in equity) in funding, with IFC investing up to \$1 billion in debt and \$300 million in equity, and an advisory facility to support governments for the potential

FIGURE 4.3 Target and Actual Commitments of DARP (as of end of March 2011)



Source: IFC.

Note: DARP = Debt and Asset Recovery Program.

design or redesign of public-private partnership infrastructure projects. The intent was to demonstrate the availability of investment from the group of IFIs at a time of reduced commercial lending, with all the IFIs being able to access cofinancing to complete the project's financial plans. Both the debt and equity components were intended to stabilize existing projects facing temporary liquidity problems and to enable new project development in private infrastructure.

Design. The Infrastructure Crisis Facility Debt Pool became operational in December 2009 after a €500 million (\$590 million) financial commitment from KfW. Participants in the program include Germany's Deutsche Investitions—und Entwicklungsgesellschaft mbH (DEG), Proparco,¹⁰ and EIB. Cordiant, a small Canadian emerging-market investment firm, was hired in a competitive bidding process to manage the IFC Debt Pool. Cordiant acts as the fiduciary in evaluating projects. By early 2011, the Debt Pool had made seven commitments totaling \$269 million (table 4.2).¹¹

Effectiveness. The mobilization of funding after roughly one year of operation fell short of expectations. IFC was able to mobilize only €500 million¹² and did not contribute the anticipated \$300 million for an equity facility; thus, the equity facility was not established. The targets called for commitment of one-third

of the Debt Pool (\$240 million) per year in the first three years of operation. As of March 31, 2011, those commitments (\$269 million) and disbursements (\$120 million) are far lower than expected. However, it has a pipeline of more than \$1 billion (total financing) in transactions from the originating IFIs.

IFC indicates that there are several reasons for the reduced scope and delay. First, increased risk aversion by the private sector during a crisis may lead to a “wait and see” attitude, and the public sector focuses on curtailing long-term fiscal expenses. Therefore, the demand for infrastructure funding is limited. Second, setting up such an innovative and “first-time” facility was more complex than initially anticipated. Inevitably it takes considerable time to design a new platform, select an agent to manage it, get legal clearance, and obtain buy-in from partners. The launch of the Infrastructure Crisis Facility was delayed by about nine months.

Third, the impact of the crisis on the emerging markets' infrastructure sector was not as protracted or substantial as originally anticipated. At the time the Infrastructure Crisis Facility was established, it was felt that refinancing of mismatched maturity commitments from commercial banks would be a significant issue, as it was in the previous crisis; however, refinancing has not been a major issue to date. Fourth, while the

TABLE 4.2 Commitment and Disbursement of the ICF Debt Pool, 2009–11 (US\$ millions)

Indicator	FY09	FY10	FY11 as of March 31, 2011	Total
Commitment	0	45	224	269
Disbursement	0	15	105	120

Source: IFC.

Note: The Debt Pool became operational in December 2009 after receiving the €500 million commitment from KfW. ICF = Infrastructure Crisis Facility.

Debt Pool and cofinancing facilities were intended to work together seamlessly through a Master Framework Agreement, the cofinancing facilities are not fully functional. This reflects the desire of the agencies that pledged funding through cofinancing vehicles to act independently, albeit with greater coordination through a Master Framework Agreement.

Finally, by the time the facility was operational, there was a marked decline in the severity of the crisis and less urgency to find alternative financing. Although infrastructure development has not rebounded to pre-crisis levels, in many countries infrastructure financing has resumed, with smaller volumes at shorter maturities.

Microfinance Enhancement Facility

Background. During the global credit crunch, the involvement of institutional investors and lenders in microfinance declined significantly. As a result, microfinance institutions encountered difficulties in refinancing debt. IFC is one of the largest investors in microfinance, with about \$1 billion in commitments for its own account with 160 microfinance institutions in 60 countries. The Microfinance Enhancement Fund was designed to instill confidence in the availability of rollover financing and thereby offset a potential reduction in access to financial services. The Fund signaled to the market that IFC and other IFIs would act as lenders of last resort. The project consisted of an IFC investment of \$150 million, with potential additional investment in later phases backed by other investors, and a link to advisory services.

Design. Together with other donors, IFC designed the Fund as an independent collaborative platform. To ensure independence, three experienced microfinance investment managers were hired to identify projects. To streamline decision making and ensure independence, the Microfinance Enhancement Fund granted an investment committee the right to approve or deny loan requests. Investments are vetted by an independent board that offers matching funding from bilateral donors. IFC and, notably, KfW invested \$150 million and \$130 million, respectively, to provide credit to fundamentally sound microfinance institutions facing severe credit constraints. The facility was designed to have the capacity to provide refinancing to more than 100 microfinance institutions in as many as 40 countries and to support lending to as many as 60 million low-income borrowers. The investments helped mobilize funds from other partners, including EIB and the Organization of Petroleum Exporting Countries Fund for International Development.

Effectiveness. The fund was slow to start because of inevitable hurdles at the inception of new ventures. These include, for example, complications in the disbursement of

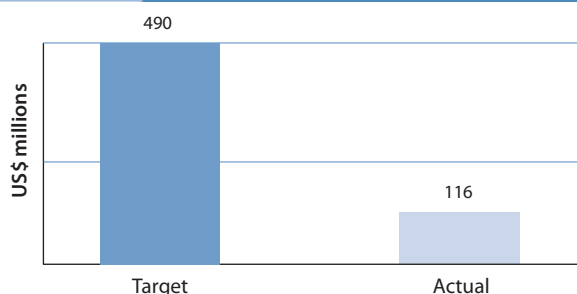
first loss funds and complex exposure restrictions by core funders. Although partners committed rapidly—as early as December 2008—some funds were received in June 2009, and the major part in September 2009. This slowed the deployment of the facility and reduced the crisis period impact of the Microfinance Enhancement Fund. Target disbursements as of December 31, 2010, were \$490 million, whereas actual disbursement was \$116 million (figure 4.4). Another contributing factor was the decline in demand from microfinance companies, as they reined in their operations during the crisis and voluntarily limited their use of external credit.

The allocation of investments by fund managers and by region is not fixed; it evolves continuously according to demand. To illustrate, as of December 31, 2010, BlueOrchard placed 32 percent of the total portfolio; Cyrano, 28 percent; and responsAbility, 40 percent. Assets allocated were as follows: Eastern Europe and Central Asia (70 percent), East Asia and the Pacific (7 percent), and Latin America and the Caribbean (23 percent).

By countries, the allocation at the end of 2010 was Azerbaijan, 19 percent; Armenia, 11 percent; Bosnia and Herzegovina, 11 percent; Peru, 7 percent; Ecuador, 7 percent; Nicaragua, 6 percent; Cambodia, 4 percent; Tajikistan, 3 percent; Kyrgyzstan, 3 percent; and Moldova, 2 percent (percent of net asset value in millions of U.S. dollars). Initially, lending was highly concentrated in three small countries—Azerbaijan, Armenia, and Bosnia and Herzegovina. Over time, and beyond the crisis period, however, the facility has diversified, and by late 2011, the shares of these three European countries had diminished from 41 percent to 34 percent; others outside Europe were also significant borrowers, including Peru and Cambodia, 11 percent each, and Kenya and Mongolia, with 9 percent each.

A possible explanation for the initial low use of the facility may have been its foreign currency denomination, but the Microfinance Enhancement Fund has now accommodated local currency financing. In April 2010, toward the end of the crisis period in the present analysis, the Microfinance Enhancement Fund gained approval to undertake local currency operations. By the end of 2011 its portfolio comprised seven different local currencies, with hedges and swaps amounting to around half its portfolio. A second explanation for slow initial uptake was on the demand side, as borrowers reined in new borrowing when the credit crunch was the greatest, between mid-September 2008 and late February 2009 (BIS 2009). Once the urgency of the initial credit crunch eased, credit was restored to sound microfinance institutions. The joint initiative showed that the IFIs were

FIGURE 4.4 Target and Actual Disbursements of the MEF (end of 2010) (US\$ millions)



Source: IFC.

Note: MEF = Microfinance Enhancement Fund.

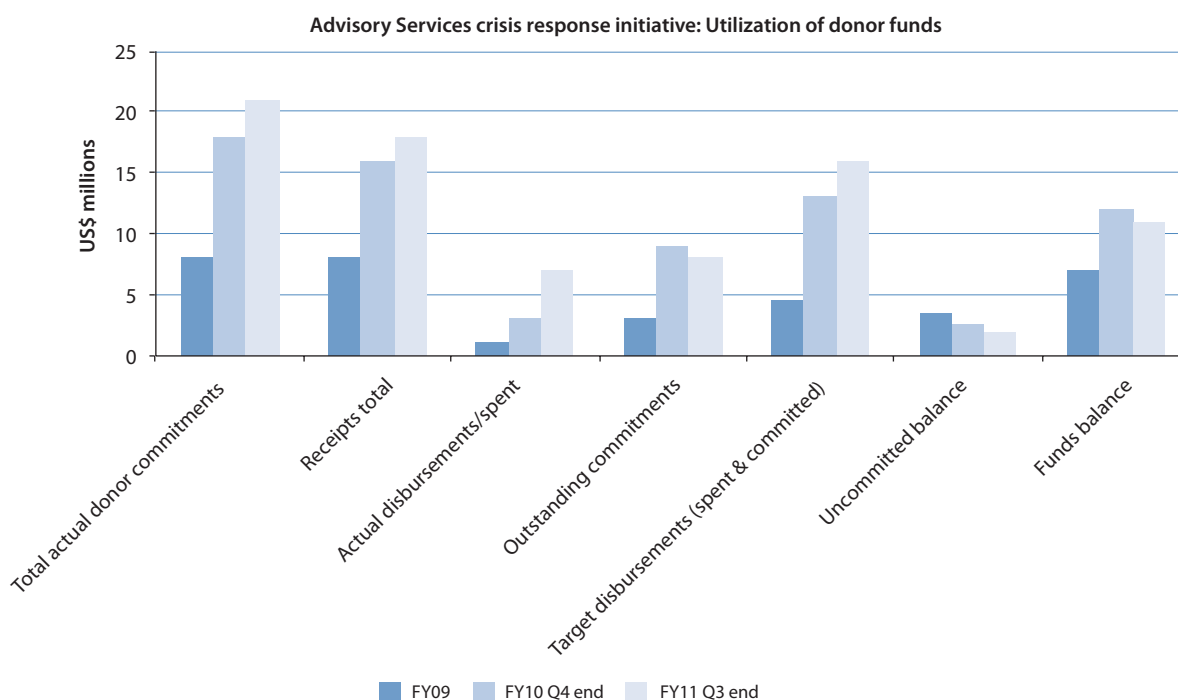
prepared to act as lenders of last resort. The Microfinance Enhancement Fund most likely had a far larger impact on restoring confidence in the marketplace than the size of the fund would suggest; however, after the crisis, its portfolio has expanded and matured to close to capacity. During the crisis, the fund helped restore stability in microfinance lending and therefore helped existing clients manage liability and liquidity. The Microfinance Enhancement Fund serves to illustrate, again, the difficulties of launching new initiatives during periods of crisis and the benefits of their continued existence during normal times.

IFC's Advisory Services

Background. In 2009 IFC Advisory Services launched the Financial Crisis Response and Recovery Initiative. One of the responses was organized by the A2F unit. IFC Advisory Services demonstrated initiative and entrepreneurship in identifying an important gap in financial stability: the response addresses risk management (Risk Management Advisory), loan portfolio monitoring, and workouts and nonperforming loan management (nonperforming loan advisory). Since the inception of the initiative, IFC has secured \$20.79 million in donor funds. As of March 31, 2011, of a total \$20.79 million committed by donors, \$18.66 million (90 percent) has been received into IFC Trust Funds (figure 4.5). Forty-one percent (\$7.63 million) of this funding was spent, an additional 46 percent (\$8.61 million) was committed, and 13 percent (\$2.51 million) remained available (uncommitted).

The IEG review focused on the A2F Advisory Services for two reasons.¹³ First, Risk Management and Nonperforming Loan Advisory are inextricably linked to the financial sector. Second, they are the largest component, accounting for more than half of all advisory services budgeted in response to the crisis. As of December 31, 2010, A2F commitments are \$8.1 million (versus \$9.5 million target), and disbursements are \$4.38 million (versus \$5.50 million target; table 4.3).

FIGURE 4.5 Commitments and Disbursements of the Advisory Services Crisis Response Initiative, 2009–11



Source: IFC.

Indicator	FY09	FY10	FY11 to date	Total
Target commitments	—	7.00	2.50	9.50
Actual commitments	—	6.46	1.64	8.10
Target disbursements	0.50	3.00	2.00	5.50
Actual disbursements	0.24	2.31	1.82	4.38

Source: IFC.
Note: Target as specified in Board paper or other approval documents. All numbers are based on funding from both IFC and partners. FY11 funding is as of December 31, 2010.

Design. The Risk Management and Nonperforming Loan Advisory Services initiatives address important gaps in the stability of the financial sector. Both initiatives were designed to strengthen financial institutions’ risk management capacity and framework for loan portfolio monitoring, nonperforming loan management, and loan workouts, as well as support for development of distressed asset markets. The Risk Management and Nonperforming Loan Advisory Services conducted public workshops and seminars to increase awareness about best practices, internal controls, and risk management strategies; undertook in-depth analysis of risk management capacity; worked with financial institutions to implement stronger risk management procedures; and assisted financial institutions in carrying out distressed asset sales. The Risk Management and Nonperforming Loan Advisory Services aimed to complement IFC’s investment work.¹⁴

Both the Risk Management and Nonperforming Loan Advisory Services were designed as three- to four-year programs and followed parallel tracks in various regions, based on local conditions. IFC developed the Risk Assessment Framework, a key tool to begin integrated risk diagnostic work, by the first quarter of 2009. Similarly, it developed the Nonperforming Loan Deep Dive Toolkit shortly after the program’s principal specialist came on board in April 2009. Within a short period, the program was able to build capacity and expand the scope and reach of activities in partnerships with local institutions, banking associations, IFC investment staff, and other IFIs. Activities can be divided into immediate crisis response, which took place in the initial months of the crisis (box 4.2 for an example of activities), and crisis preparedness for the future (box 4.3).

Effectiveness. From the outset, these crisis advisory services were not intended to mitigate the impact of the current crisis. The A2F Advisory Services crisis response aims to build greater resilience to prospective crises. That requires implementation of better Risk Management and Nonperforming Loan Advisory Services and processes through a longer-term client engagement and in-depth institution building.

Therefore, it is premature to evaluate the effectiveness of A2F Advisory Services or the Risk Management and Nonperforming Loan Advisory Services. Nevertheless, the in-depth engagements with a few banks and on regulations, such as in Ukraine, provide a promising platform for impact going forward. Going forward, there are several considerations.

The original intent of the Risk Management and Nonperforming Loans Advisory Services was to complement IFC’s investments. The majority of Risk Management and Nonperforming Loans Advisory Services support IFC’s prospective and existing investment clients. However, the collaboration with the Debt and Asset Recovery Program and Bank Recapitalization Fund is still limited. The initiative has an exceedingly broad number of components, including policy outreach seminars, training workshops, production of pamphlets, public policy and financial regulatory interventions, diagnostics, and in-depth remedial engagements. Prospectively, it would be desirable to articulate a more selective strategy focused on IFC’s clients.

The output indicators monitored by A2F—such as number of procedures, practices, and policies proposed for improvement or elimination; number of participants who attended training; number of participants who provided feedback on training; and number of participants satisfied with the training—are not sufficient to determine the ultimate impact of the initiative. IFC needs to refine the methods and tools for monitoring and evaluating the impact of the interventions.

Pattern of Investments during the Crisis

As shown in figure 4.6, IFC commitments retrenched during FY09, when the crisis hit the hardest, and then restored and increased to a level slightly higher than the pre-crisis FY08, while maintaining about the same risk profile. IEG used the risk weights that IFC uses to determine economic capital to calculate IFC risk profile. During 2008–10, the risk profile in terms of the ratio of risk-weighted net commitment to total commitment did not change markedly, with the ratio of 29 percent consistent with the ratio of 30 percent during 2000–07.

BOX 4.2 ADVISORY SERVICES PROGRAM WITH A BANK IN ARMENIA

The project has completed all modules envisaged in the Advisory Services Agreement signed with a bank in Armenia. The completion report has been prepared and sent to the bank. The bank has fully transferred the \$120,000 advisory services fee for these services. Key highlights of the project's work include the following:

- A risk management department was established and staffed by three divisions (credit risk, market risk, and operational risk management).
- A nonperforming loan management division was established and staffed.
- Internal policies and procedures for all risk management were developed and implemented.
- The bank was provided with reports covering all aspects of risk.
- The asset-liability management committee was established and launched.
- The IFC asset-liability management software was updated and provided to the bank.
- The bank was provided with new stress tests.

Source: IFC Project Supervision Reports.

The assets portfolio reflects the same findings. The ratio of total risk-weighted assets to total assets remains relatively stable over time, in the range of 29 percent to 31 percent, demonstrating that the risk profile has not changed. However, the aggregate weighted IFC risk ratings of the portfolio suggest an increase in risk in the fall of 2008.

An important question is the extent to which financial support was directed at clients in countries where the payoff was high in terms of restoring financial stability. IEG examines the overall patterns of IFC's investments during the crisis, juxtaposing the extent of vulnerabilities and impact on client countries with IFC's financial support. The indicators of vulnerability and stress selected go beyond changes in GDP growth alone to include variables such as movements in trade and exchange rates; public expenditure and public debt; and indicators of financial distress, such as stock market index-

es, bond spreads, and credit growth.¹⁵ To assess the scale of IFC's intervention, IEG focused on 49 high-GDP developing countries, on the premise that they are more homogenous. They were divided into three categories—high-, medium-, and low-severity crisis countries. Figure 4.7 presents the assistance to high-GDP countries, including high income, upper middle income, lower middle income, and low income. It shows that the focus on high- and medium-crisis-severity countries was limited compared with low-severity countries.

Countries with a high GDP and high-income and upper-middle-income GDP per capita were particularly adversely affected because of their deeper financial systems as well as trade linkages. These countries include Argentina, Hungary, Korea, Mexico, Turkey, and South Africa. IEG analyzed whether there was a correspondence between the severity of the crisis and IFC's assistance to the respective countries.

BOX 4.3 CRISIS PREPAREDNESS ACTIVITIES

Six risk management training sessions and workshops were conducted in Bangladesh, China, Sri Lanka, and Russia during this cycle. The Bangladesh workshop was organized to share risk management best practices with bankers. Fifty-seven midlevel managers participated in the workshop, which focused on credit risk and nonperforming loan management, with an overview of key aspects of risk management at banks. Training was provided to the staff of Nation Trust Bank in Sri Lanka. In China, a training session was done for the staff in Chengdu on the concept and importance of internal controls. Two training sessions were organized in Russia—one for top management and one for middle management. In some countries, such as Armenia, the projects addressed the enabling environment by conducting in-depth analyses of existing legal and regulatory environments related to insolvency and distressed asset transfer laws and engaged with the central bank on ways to improve the mortgage market's regulatory environment and standardize the market.

Source: IFC.

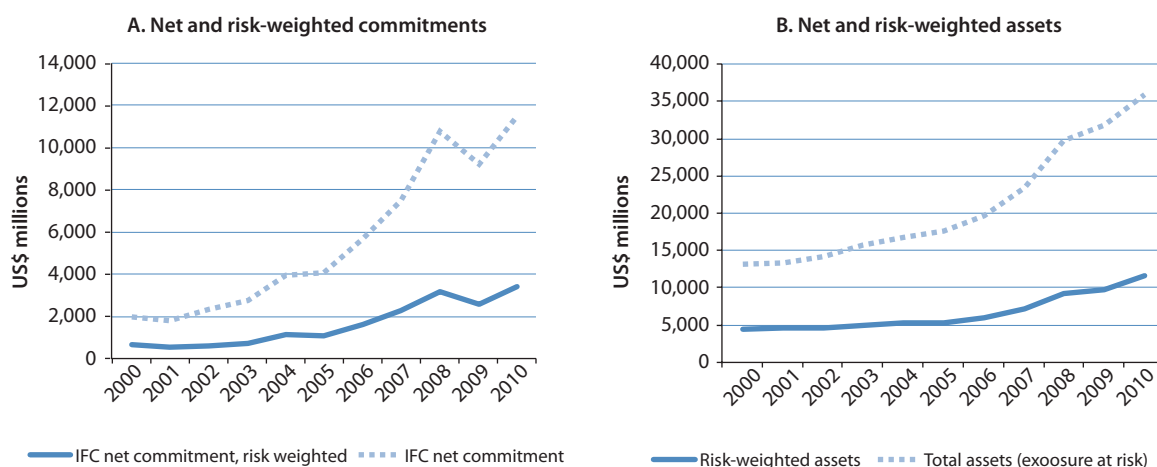
TABLE 4.4 Typology of Criteria Applicable to Initiatives

Criteria	GTFP	GTLP	AMC	MEF	Infrastructure Crisis Facility	DARP	RM and NPL Advisory Services
Existing initiative		Relied on experience with GTFP					
Repetitive processes that do not require credit officers and board approval and internal reviews			Transactions are unique and complex requiring lead time for design	Contract with external fiduciary	Contract with external fiduciary	Transactions are unique and complex requiring lead time for design	
Responded to an immediate need in the crisis							
Aligned with IFC's competences: adequate institutional staff and financial resources from IFC					Lack of expertise with domestic initiatives to mobilize private capital for infrastructure; inadequate financial resources	Lack of expertise with distressed assets	Lack of previous expertise
Shared ownership—common platform for IFIs and not "IFC brand"							
Leveraged resources from donors and partners							
Required considerable lead time to accommodate partners							

Source: IFC.

Note: AMC = Asset Management Company; DARP = Debt and Asset Recovery Program; GTFP = Global Trade Finance Program; GTLP = Global Trade Liquidity Program; MEF = Microfinance Enhancement Fund; NPL = nonperforming loan; RM = risk management.

FIGURE 4.6 Net and Risk-Weighted IFC Commitments and Assets, 2000–10



Source: IFC database.

Of the \$16.8 billion IFC invested between September 2008 and June 2010, \$7.8 billion (46 percent) went to the top 10 high-GDP countries. Table 4.5 lists the top 20 countries in declining total investments. Although some countries, such as Russia, Turkey, and Kazakhstan, were affected by the crisis, others, such as China, India, Colombia, and Indonesia, were not.

The region that suffered most from the crisis was Europe and Central Asia. There, IFC was part of the IFI action plan together with EBRD, EIB, and the World Bank (IBRD and MIGA). As shown in the final report of the Joint IFI Action Plan (EBRD, EIB, and World Bank 2011), IFC fulfilled its pledge fully under the action plan. Although IFC met its obligations, the support it provided was not commensurate with the Region's needs and consisted of lower-risk instruments. Investments such as equity and quasi-equity investments accounted for only 12 percent of total commitments (€279 million), and the Debt and Asset Recovery Program accounted for 4 percent of total commitments (€92 million). Relatively riskless products, such as the Global Trade Finance Program and the Global Trade Liquidity Program, accounted for 39 percent of total commitments.

To summarize, countries most adversely affected did not receive more support than medium-severity countries; IEG therefore concludes that the flow of investments to clients did not correspond to the severity of distress. The finding also reflects IFC's focus on IDA countries and Sub-Saharan Africa as part of its crisis response strategy. Those countries were relatively less affected by the crisis.

IFC's Investments on Its Own Account in the Financial Sector

IFC invested \$21.6 billion between September 2008 and June 2010, and around 55 percent of its total commitments in this

period (\$11.8 billion) were in the financial sector, compared with an average of 44 percent during FY05–07. These investments were divided into loans (23 percent), equity (21 percent), and guarantees (49 percent). In the sample reviewed, two-thirds of the projects (33 of the 50 projects sampled) were explicitly designated by IFC in board documents as crisis response projects. Of the 50 projects sampled, 26 assisted in filling financing gaps, and 13 had a demonstration effect, such as financial innovation, or were catalysts for additional funding or knowledge sharing. Only a few projects were in a systemic crisis region or country and involved a systemic bank.

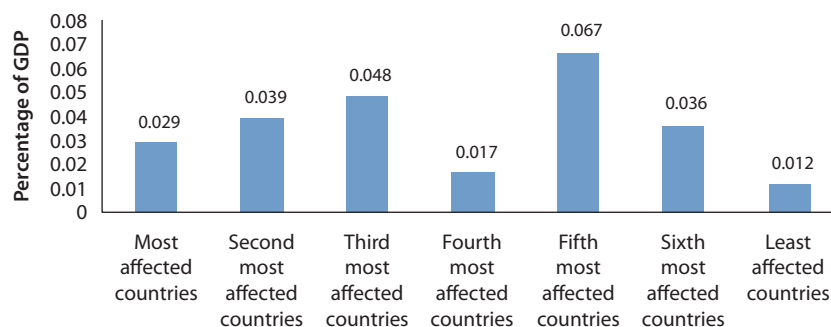
In eight investments the size of the project combined with the size of the bank was significant enough to have a systemic impact. The majority of the investments did not target crisis countries or systemic banks. IFC did not appear to distinguish between the urgency of providing immediate funding to sectors adversely affected by the crisis and medium- and long-term development objectives, such as access to finance for select sectors such as SMEs and energy efficiency financing. Further, in a large number of cases, IFC engaged with tier 2 or 3 private banks that are too small to make a systemic difference.

IFC's Measures to Protect Its Portfolio

Limited capital headroom, imminent transfers to IDA, and potential prospective losses dictated IFC's strategy. Cognizant of the IDA transfers¹⁶ and potential capital impairments that would limit IFC's ability to fulfill its developmental mandate, IFC undertook measures to protect its capital.

As instability increased after the fall of 2007, a series of stress tests were conducted and risk monitoring was intensified. IFC analyzed large exposures by country, sector, and company for indications of vulnerabilities.¹⁷ Regional portfolio reviews were conducted quarterly (instead of semi-annual-

FIGURE 4.7 IFC Net Commitments, September 2008–June 2010 (percent of total GDP in 2008 and 2009)



Source: IFC database.

Note: Based on 49 high-GDP client countries, crisis severity ranking higher at the top and lower at the bottom

Country	Commitment amount	Country	Commitment amount
Brazil	1,494,793,965	Argentina	386,079,396
India	1,135,471,569	Ukraine	315,325,465
Nigeria	978,341,037	Colombia	313,871,486
Russian Federation	815,128,050	Mexico	302,409,641
Pakistan	736,020,156	Lebanon	255,080,114
Turkey	587,864,366	Romania	249,064,424
China	543,362,764	Guatemala	171,837,049
Egypt, Arab Rep. of	516,518,224	Peru	167,941,046
Kazakhstan	475,807,219	Indonesia	161,411,450
Vietnam	470,525,710	Bangladesh	152,839,741
Total	7,753,833,059	Total	2,475,859,812

Source: IFC.

ly¹⁸) to assess projects at risk. Coordination among relevant departments (economists, risk management groups, credit, and the Special Operations Department) intensified.

IFC's Special Operations Department (CSO) is responsible for the workouts of jeopardy investments. Prior to the start of the crisis, CSO developed a crisis contingency plan, which was presented to IFC management in March 2008. That plan looked at past crises and the data and scenarios developed by IFC's financial risk team to determine how much and what type of (region, sector) extra work could possibly come to the department in the event of a serious downturn. The CSO requested a contingency budget to tap into if a crisis were to result in a significant increase in the work load. It estimated that if IFC were to be hit by a crisis (or crises), the number of distressed assets could possibly double in an extreme case. As a part of the contingency planning, the CSO identified qualified and interested staff members who could be redeployed to the department in the event of a crisis. The CSO also looked at other processes and procedures to strengthen operational effectiveness.

IFC management approved the contingency budget, which was, in fact, tapped into in the fall of 2008. Although the crisis resulted in a doubling of the volume of projects in the CSO portfolio, the increase in the numbers of projects was significantly less. As a result, the contingency budget actually used was only about one-third of the total contingency approved by management. In the spring of 2009, IFC's Board approved new delegated authority limits for approvals of restructurings and settlements and the thresholds for use of the Jeopardy Facility. IFC management also approved strengthened criteria for CSO involvement in jeopardy investments.

IFC strengthened the role of the portfolio management function and prioritized portfolio management by leveraging the decentralized organization, which combines closer client contact with improved operational efficiency. IFC also reallocated staff from new transactions to portfolio monitoring. IFC proactively managed credit exposures of priority companies by mapping portfolios and projects in need of support. Active portfolio management and supervision were reflected in proactive support for IFC clients, such as helping clients to manage their cash flow more efficiently, considering rescheduling or restructuring facilities, if appropriate, and reviewing security perfection and verifying all conditions of further disbursements. Therefore, it appears that a significant number of investments were designed to stabilize the operations of existing clients and protect the portfolio.

IFC also undertook key operational measures to manage costs. IFC's management team took deliberate steps to manage and limit IFC's costs and cost growth at the beginning of the second quarter of FY09 and introduced a hiring freeze to limit expenditures during and following the crisis.

The actual peak level of nonperforming loans in this crisis was significantly lower than in previous crises. The results of the stress tests had a significant impact on IFC's behavior, especially at the beginning of the crisis; thus, it is important to understand the wide disparity between IFC's original stress tests and the more modest nonperforming loans that have materialized so far.

The discrepancy probably reflects the combination of several factors. First, IFC's capital planning approach is based on a top-down analysis of the corporation's financial capacity under

various macro scenarios. IFC has traditionally evaluated the potential financial impact on a crisis by performing stress tests that assume crises in two of its large exposure countries requiring reserves of just over 50 percent of the affected portfolio. This was based on the Corporation's historic experience with emerging crises, which had affected a single country (such as Argentina) or several countries within a region (as in the Asia crisis). Stress tests based on historical data were indicative of potential losses of upward of \$5 billion. The scale of the potential losses needs to be considered in the context of IFC capital leading into the crisis of over \$14 billion. Leading into and during the crisis IFC recognized that the two-country stress test methodology reliant on historical data is rudimentary and does not reflect the nature of the underlying risks in the present portfolio. Accordingly, a new granular methodology was developed for the banking and nonfinancial sectors, reflecting macro shocks. IFC continues to improve and refine its stress scenarios methodology.

Second, IFC was able to take proactive and preventive actions, allowed in part by the time lag between the eruption of the crisis in the developed economies and its manifestation in developing countries. For instance, defensive actions played a role in Nigeria, where IFC identified risks in the portfolio early on and took proactive measures to reduce its exposure to financial institutions that were not prudent in the management of risks. The actions were subsequently borne out by events. Third, the crisis was less severe than expected in developing countries, in part because of the unprecedented global collective response to it. Other IFIs, such as EBRD, were also surprised by the resilience of their portfolios, suggesting the importance of external factors.

MIGA's Crisis Response

Strategy and Intended Results

MIGA's strategy in response to the global financial crisis was embodied in its Financial Sector Initiative (FSI), which was set out in March 2009. MIGA's FSI was part of the wider, internationally coordinated Joint IFI Action Plan agreed to by the EBRD, the EIB, and the World Bank Group a month earlier (chapter 2) to support the banking sectors of the Europe and Central Asia Region and their lending to the real economy, including to SMEs. Under the Joint IFI Action Plan, MIGA agreed to commit up to \$2–\$3 billion in gross exposure for political risk insurance on cross-border investments by financial institutions to recapitalize or provide liquidity to subsidiaries. MIGA expected that the major part of demand would initially come for countries in the Europe and Central Asia Region, but capacity and underwriting resources were also available within the FSI for other Regions. By the end of

FY09, however, MIGA's crisis response was framed in terms of support to banks in Europe (MIGA 2009).

MIGA recognized that various risks were inherent in the FSI. It saw the first line of defense in managing the build-up of risks under FSI to be limiting the increase in net exposure to Europe and Central Asia to \$1 billion. The second line was MIGA's assessment and management of individual country exposures. The third was the possible presence of an IMF program, or similar arrangement, in the host country concerned. The fourth line was the profile of existing Europe and Central Asia exposures, which implied significant maturities within a few years. MIGA did not articulate an explicit strategy for redeployment of staff resources or orienting business development work toward opportunities arising from the crisis. Despite the agency's strong capital base and its comparative and competitive advantage of being able to offer much longer-dated guarantees (up to 15 years) than its market competitors, these advantages did not translate into MIGA's developing an explicit articulated plan for increasing business outside of the Region as a result of the crisis. From early on, then, MIGA's crisis response was geographically limited in its ambition.

MIGA announced it would commit up to \$2–\$3 billion in new guarantees (gross exposure) for political risk insurance on cross-border investments by financial institutions to recapitalize or provide liquidity to their subsidiaries in the Europe and Central Asia Region.¹⁹ After reinsurance, this would mean an increase in net exposure of up to \$1 billion (in the Region) for MIGA. Thus, an additional \$1 billion in net exposure would support gross flows into the Region of \$2–\$3 billion.

The FSI pointed to several developmental benefits for the host countries concerned: first, stabilization of the countries' fragile external and financial situation by providing guarantees, in association with support by other IFIs (often in the context of IMF stabilization programs); second, coordinated signaling of continued support by official institutions to bolster confidence in the financial sector; and third, support for the maintenance of capital inflows, with a particular focus on investments that reflect a long-term commitment by the banks to their subsidiaries.

In sum, MIGA's FSI strategy articulated a set of strategically relevant objectives and was based on the recognition of the external (crisis) and internal (balance sheet) contexts. However, it was limited in its ambition to pursue global business opportunities presented by the crisis.

MIGA's Overall Response

During the crisis period, FY09–10, MIGA issued \$2.13 billion in new guarantees in response to the crisis (gross ex-

posure), \$1.21 billion and \$0.92 billion in FY09 and FY10, respectively (appendix D, section 2). Including MIGA's crisis-related guarantees in the first half of FY11, MIGA's total crisis support comes to \$2.39 billion (gross exposure). All these guarantees were issued to European banks in support of their subsidiaries in the Europe and Central Asia Region.^{20, 21} Just under half of MIGA's additional exposure over the period in FY09–11 (first half of the year) was reinsured (\$1.14 billion out of \$2.39 billion in gross exposure).

MIGA's crisis response in terms of volume of guarantees is examined from five perspectives: first, in relation to the announced or intended results under MIGA's FSI; second, in comparison with the activities of other political risk insurance providers in the same period; third, in relation to MIGA's available capacity to bear underwriting risk; fourth, in relation to market opportunities during the crisis; and fifth, in relation to the trend in MIGA overall new business volumes.

With respect to the first metric, MIGA announced it would provide \$2–\$3 billion in crisis-related guarantees, and its volume of new guarantees was \$2.39 billion—well within the range.

A second metric is to compare the size of MIGA's new business with that of other providers of political risk insurance on a global basis, that is, including all developing countries. Because MIGA does not provide trade coverage, only investment insurance is included. Even with those restrictions, Berne Union aggregates are not fully representative of MIGA's actual market, because MIGA cannot provide all of the coverage provided by private political risk insurance insurers (figure 4.8). However, with that caveat in mind, the data indicate that MIGA's new business grew more slowly than that of the Berne Union private political insurers in developing countries.²² MIGA's new business also grew more slowly than that of public insurers in this period.

The changes in the ratios of MIGA's new business to that of public and, separately, private insurers were essentially declining between 2005 and 2010, including the crisis period, with some variability around the trend. This is confirmed by MIGA's overall market share, which declined to 2 percent in 2010, down from 3.6 percent in 2005–08. In terms of rank order, however, MIGA's ranking has remained stable at sixth out of 35 Berne Union insurers since 2005.

In sum, these indicators suggest that MIGA's response during the crisis could have been greater regarding the volume of guarantees underwritten.

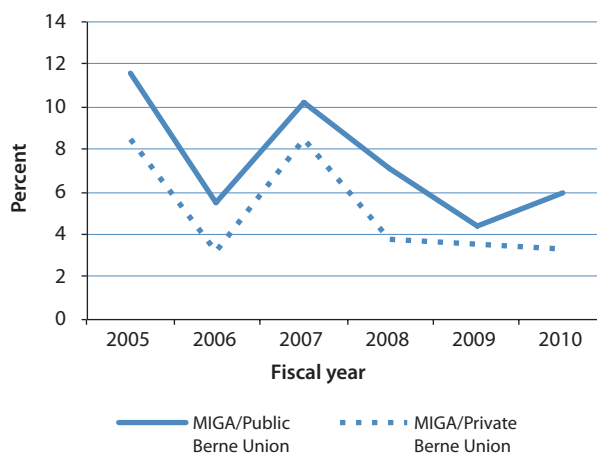
Looking at MIGA's new guarantees in relation to its available risk-bearing capital reveals that MIGA entered the crisis

with substantial unutilized capital that could be deployed. MIGA was able to write long-dated tenors on guarantees, up to 15 years. This ability was a significant competitive advantage because, for example, in the first half of 2010, a major private provider at longer tenors (up to 10 years) decided to cease writing political risk insurance business.²³ In addition, MIGA had the underwriting capacity to cover riskier sovereigns, that is, sovereigns perceived to present greater political risks. This capacity was a significant competitive advantage because demand for cover shifted to the riskier sovereigns, and some suppliers were unwilling or unable to offer insurance cover in that market segment.

MIGA's capital is a significant resource that was underutilized during the period reviewed. Economic capital is an estimate, calculated by MIGA, of the capital needed to support (absorb) the risks of the existing portfolio of outstanding guarantees.²⁴ Operating capital, which equals paid-in capital and accumulated net income, is the capital available to MIGA. The values of economic and operating capital show that MIGA was not capital constrained during the crisis (table 4.6). The ratio of economic to operating capital rose from 25 percent to 31 percent over the crisis period, indicating that MIGA had utilized little more than a third of its capital.

Market conditions during the crisis offered MIGA the opportunity, relative to competing political risk insurance providers, to cover investments in riskier countries at rates that reflected a longer-term view of economic prospects. The cost of insurance coverage rose sharply during the crisis. Even

FIGURE 4.8 MIGA's New Business Compared to Berne Union Insurers, 2005–10 (developing country coverage)



Source: Berne Union data.

Note: The new business of Berne Union insurers includes all investment insurance business, including lines that MIGA does not cover.

though the overall level of business written by Berne Union members declined by 35 percent in calendar year 2009 compared with 2008, aggregate revenues actually increased. That meant that on business written guarantee premiums were raised, on average, by more than 35 percent. The elevated levels of pricing were maintained going into the first half of 2010, even though new business underwriting volumes recovered to an annual rate that was close to that for 2008. As a long-term development institution, MIGA was able to price its insurance premiums on a longer-term view that was not driven by crisis conditions.

In terms of the prevailing trend of its new business volumes at the onset of the crisis, MIGA's guarantee activity remained flat, and globally its crisis response was not significantly countercyclical. That was the conclusion of Phase I of this evaluation, and it still stands (IEG 2010). This judgment is based on an assessment of the overall volume of new MIGA guarantees, both crisis and noncrisis, in FY09–10 (table 4.7) compared with trend levels.

Client concentration in MIGA's new business has been high and became even higher for the crisis guarantees (figure 4.9). All but one of the crisis guarantees were written for one of two client banks (as beneficiary).²⁵ Existing clients are a good source of repeat business. The more limited the pool of existing clients, however, the more dependent is the source on the vagaries of individual client plans. The very high client concentration of crisis guarantees underscores the need for MIGA to broaden its business development.

From the standpoint of strategic relevance, MIGA's crisis response was strong.²⁶ For example, Ukraine and Latvia suffered banking crises, and Ukraine and Russia experienced major devaluations of their currencies. MIGA provided timely guarantee assistance to banks operating in those host countries. In Hungary, MIGA provided preventative support. (In all cases, the MIGA guarantees played a small role in contributing to the outcomes. It would be an unwarranted overestimation to attribute outcomes solely to MIGA interventions.)

More broadly (as discussed further in appendix D, section 3), MIGA's guarantees in Europe and Central Asia helped

support the recapitalization of banks, because the guarantees provided political risk insurance that covered the cross-border capital injections made by parent banks. In many cases, the subsidiaries had gone through credit booms, were facing rising levels of nonperforming loans, and were dependent on parent bank provision of liquidity and funding in an environment of shallow local currency markets.²⁷

Nevertheless, despite financial stresses in other regions, MIGA's crisis assistance did not extend beyond the Europe and Central Asia Region. MIGA's geographical limitations indicate that it was hampered by a weak business development function.

In conclusion, MIGA's overall response was strongly strategically relevant to the crisis but deficient in terms of volume of guarantees underwritten. MIGA could clearly have done more in comparison with other providers of political risk insurance and in terms of its own capital availability.

The Guarantee Portfolio

The main element of crisis contribution other than new project guarantees was a fall in the rate of cancellations. Before the crisis, MIGA experienced a significant rate of guarantee cancellations (as a percentage of its net portfolio). Over FY06–08, for example, the average rate of cancellations was 11 percent. During the crisis period, the cancellation rate fell to a much lower level, and even more markedly low for financial sector guarantees (table 4.8). The drop in cancellations underscores MIGA's important role in crisis periods, because MIGA provides guarantee coverage to clients in the private sector, who are sensitive to shifts in market risk perceptions.

Post-Crisis Directions

MIGA has recently articulated its new FY12–14 Strategy (MIGA 2011). In implementing that strategy, MIGA should be informed by the following crisis lessons:

- MIGA's crisis response was strongly strategically relevant and contributed to economically sustainable private sector development. Its response demonstrates the value of organizational flexibility and leveraging of the World Bank Group role.

TABLE 4.6 Estimates of MIGA's Capital Utilization, FY08–10 (US\$ million)

	FY08	FY09	FY10
Economic capital (MIGA estimated)	250	310	323
Operating capital ^a	1,019	1,044	1,033
Capital utilization: Economic capital as % of operating capital	24.6	29.7	31.3
<i>Source:</i> MIGA 2010.			
a. Paid-in capital plus accumulated net income.			

TABLE 4.7 MIGA's New Guarantee Volume, Overall and Crisis, FY08–10

	FY08	FY09	FY10	FY11 (first half)
Gross exposure (\$ millions):	\$2,098	\$1,377	\$1,464	\$812
Of which crisis guarantees (\$ millions):	N/A	\$1,212	\$918	\$259

Source: MIGA and IEG staff estimates.

- MIGA should have done more in terms of volume of guarantees underwritten and in terms of its own capital availability. It needs to deploy its operating capital more proactively.²⁸
- MIGA needs to strengthen its business development function. Its strong relationships with a very small number of clients need to be replicated more widely.

Results: An Updated Look

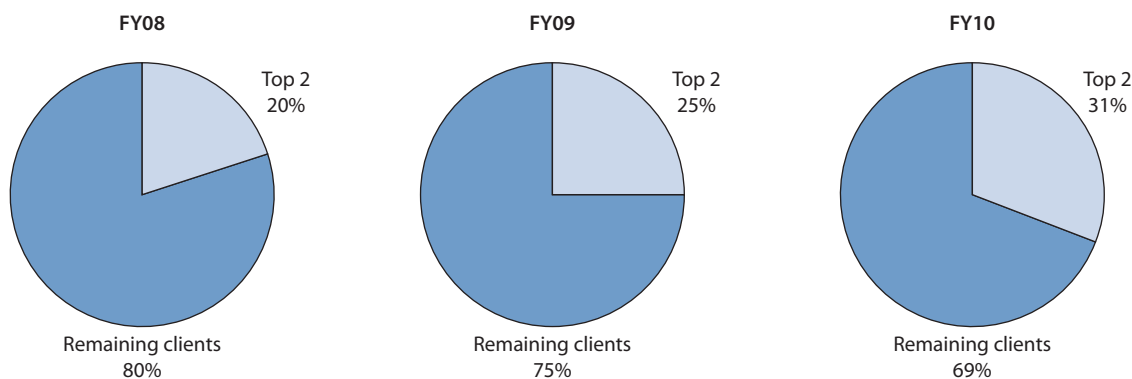
In conclusion, IEG finds that MIGA's crisis support has proved economically sustainable to date: banking systems have been recapitalized and bank lending is exhibiting positive growth, thereby contributing to economic recovery in host countries. MIGA's business development has been test-

ed by the crisis, and the jury is still out on its capacity to deliver.

World Bank Group Cooperation

The guiding principle for World Bank Group cooperation in the financial sector is the pursuit of potential synergies in areas where institutional mandates complement each other, reflecting the Bank's role in the policy dialogue with public sector agencies, IFC's role as an investor in and advisor to private sector entities, and MIGA's role as a guarantor to the private sector. Box 4.4 explores the differences in Bank Group cooperation in two Europe and Central Asia countries: Ukraine, where cooperation was highly effective, and Latvia, where cooperation was much more limited.

FIGURE 4.9 MIGA's Outstanding Portfolio FY08–10: Composition by Client Concentration (net exposure)



Source: MIGA.

TABLE 4.8 MIGA's Portfolio Runoff: Contribution of Cancellations, All Sectors and Financial Sector, FY08–10

Fiscal Year	All sectors (%)	Financial sector (%)
2008	9	9
2009	1	0.2
2010	3	1

Source: MIGA and IEG staff calculations.

BOX 4.4 WORLD BANK GROUP COOPERATION: A TALE OF TWO COUNTRIES

Ukraine and Latvia provide two examples of very different World Bank Group cooperation in responding to the crisis. Both countries suffered severe banking crises in 2008, with the IMF in both cases leading rescue packages involving the EBRD and private creditors. But the degree of Bank Group cooperation in the crisis responses was very different—highlighting an inconsistency in the application of operational cooperation at the country level.

In the Ukraine, the Bank, IFC, and MIGA were closely involved in the international response. The Bank provided a third DPL (approved December 2008) of \$500 million directed toward budgetary support under the IMF program. In September 2009 (approval date), the Bank provided a first Programmatic Financial Rehabilitation Loan aimed at strengthening deposit insurance (through increased limits covered and capitalization of the guarantee fund). IFC participated in investments that helped recapitalize four commercial banks and provided technical assistance, working in cooperation with the Bank and other partners, including the EBRD. MIGA provided guarantees to two European banks to support capital injections into their Ukrainian subsidiaries. The two guarantee projects totaled \$390 million in gross exposure and covered transfer risk and expropriation.

In Latvia, in contrast, though the Bank and MIGA provided support, IFC did not. The IMF package included commitments from the EU, Nordic and EU countries, and the EBRD. Notwithstanding that Latvia had graduated from IBRD in 2007, the Bank extended a financial sector DPL of €200 million in September 2009, aimed at addressing immediate banking sector problems, accelerating debt restructuring, and strengthening supervision and regulation. Under its Financial Sector Initiative, MIGA issued two guarantees to a European parent bank in relation to its Latvian subsidiaries. The first of these guarantees became effective in June 2009. The guarantees supported capital injections by the parent and covered transfer risk and expropriation (and, in one case, war and civil disturbance). The gross exposure of the guarantees totaled \$169 million, and MIGA took the whole amount on its balance sheet (that is, reinsurance was nil). After the crisis struck, the Latvian authorities had taken over the largest domestically owned bank, Parex Bank. IFC (the Corporate Operations Committee) chose not to make an investment in Parex Bank—though it did consider acquiring assets under its distressed asset facility. In contrast, EBRD took both an equity stake and a subordinated loan in Parex.

Sources: IEG mission findings; IEG interviews with World Bank Group staff and EBRD staff.

5

Support to Fiscal Management in the Crisis

This chapter reviews the quality of Bank support to developing countries in managing the fiscal challenges associated with the crisis—one of the four priority directions highlighted in the Bank’s crisis response strategy.¹ The World Bank was quick to reckon that the crisis would stress fiscal positions of most developing countries and the credit crunch would restrain the ability of emerging economies with market access to meet their gross financing needs. The Bank would play an important countercyclical role—through DPOs financed by IBRD and IDA—in helping countries meet their gross financing needs while they proceeded to adjust expenditure and revenue policies to the crisis conditions.

At the same time, helping countries protect long-run investments in social development and infrastructure was identified as an overarching priority for Bank support in fiscal management. It was understood that the Bank’s support in fiscal management would be closely coordinated with the IMF and other development partners.

A guiding framework for the evaluation is the relevance and effectiveness of Bank support in strengthening medium-term fiscal positions in crisis-hit countries, while also helping protect spending that is pro-poor and promotes growth. IEG assesses Bank support in confronting the fiscal challenges countries faced. Most often, countries that entered the crisis with weak fiscal positions set fiscal consolidation as a key priority. By contrast, countries that entered the crisis from a position of fiscal strength were able to respond countercyclically, through fiscal stimulus. Although many countries fell into these two broad categories, several countries had to reprioritize expenditures, or introduce fiscal measures with a clear future payoff, to create fiscal space during the crisis for some measured stimulus or for spending to protect the poor. Uncertainty about the duration of the crisis, compounded by uncertainty about the size of distressed private sector liabilities that could possibly be assumed by the state as a result of the crisis, further complicated matters, thus making directions for Bank support less clear-cut.

The first section of the chapter reviews the patterns of Bank financial support and operation design according to fiscal policy constraints that recipient countries faced. The second section assesses the relevance of the objectives and

design of Bank operations against country-specific fiscal challenges and reviews some preliminary results. Main findings are summarized immediately below; recommendations are outlined in chapter 7.

Overall Findings

About 54 percent of the Bank’s financing through DPOs that focused on fiscal management was allocated to countries with moderate fiscal stress. This pattern of financing was broadly aligned with the Bank’s exposure to client countries before the crisis, based on these countries’ pre-crisis fiscal positions. The Bank response to the crisis in fiscal management cushioned the sharp increase in financing needs associated with the crisis by incrementally augmenting the commitments of already programmed DPOs or by initiating new, stand-alone operations. Several countries that entered the crisis with low or moderate fiscal stress were able to initiate some countercyclical response that was partly financed with resources from the Bank’s DPOs.

Although there was a significant increase in commitments, the policy content of DPOs was often only partly relevant to the fiscal challenges of the crisis. Adjusting the content of programmatic DPOs was difficult in the midst of the crisis and sometimes was not achieved. In addition to fiscal management components, most crisis response DPOs included policy components with a different sector focus, and in half of the DPOs, there were components relevant to the crisis. In some cases, budget support was mainly provided through operations with no

fiscal content, such as environmental DPOs, whose commitment amount was considerably augmented compared to initial plans.

Financing instruments pertaining to crisis situations, such as the Special Development Policy Loan option and DPL-DDOs, could have been used more often during the crisis. The Special Development Policy Loan option, relevant for IBRD-eligible countries confronted with crises, was made financially unattractive by the elastic use of DPOs on regular financing terms for crisis support. In countries with solid fiscal positions, the instrument was not used because of the requirement for the presence of an IMF program. DPL-DDOs have been used infrequently but have strengthened the credibility of country financing programs where fiscal positions were reasonably sound. In countries under fiscal stress, DPL-DDOs have served as regular financing instruments rather than precautionary credit lines.

Fiscal consolidation measures supported by the crisis response DPOs were often insufficient to help attain sound fiscal positions. In some cases this was because the economic and fiscal impacts of the crisis were underestimated. In other cases it was because potentially sensitive or demanding measures—such as reduction of subsidies or curtailment of low-priority investments—could not be tackled during the crisis, or because the supported fiscal measures were backward looking. In yet other cases, as the DPOs were not sufficiently modified to address the impact of the crisis, the measures supported were not necessarily called for from a stabilization perspective. Targets for the fiscal deficit, fiscal revenues and expenditures, or the public debt ratio were included in less than one-third of DPOs for countries under high or moderate fiscal stress. The relatively large number of cases in which the longer-term perspective could not be reflected suggests the difficulty of using a medium-term development instrument for crisis response.

Around half of crisis response DPOs with fiscal content included provisions to safeguard or scale up social protection expenditures. Expenditures for education and health were protected in less than one-third of the DPOs, although more frequently in countries with adequate fiscal space. Similarly, public investments were safeguarded—and public works programs scaled up—in DPOs for countries with low fiscal stress, but less frequently so where fiscal stress was more elevated.

When countercyclical policies were supported, there was not always close attention to the fiscal space required for affordable countercyclical spending. A majority of client country recipients of fiscal management–focused DPOs that entered the crisis with low or moderate fiscal stress emerged

from the crisis with weaker fiscal positions. Although strong caveats apply to attribution, weak fiscal positions post-crisis tend to be associated with some weaknesses in the design of these DPOs.

Crisis response DPOs typically supported a broad array of public financial management reforms that should help attain stronger fiscal outcomes in the future. However, as such reforms require focused action over time to attain the expected results, stand-alone crisis response DPOs were not properly designed to follow up on this reform agenda. Moreover, some important structural fiscal reforms were sometimes disregarded to further fortify fiscal management in the future.

The Bank's knowledge base in public finance was generally sufficient—with some gaps when lending had declined before the crisis. Diagnostic work was sufficient, especially in public financial management, an area where long-standing engagement had been maintained. However, there were noticeable knowledge gaps in countries where the Bank's pre-crisis engagement had waned.

Country Fiscal Positions in the Crisis and the Response of the World Bank Group

This section first reviews the allocation of World Bank crisis response financing for DPOs with a focus on fiscal management, according to the fiscal positions and external vulnerabilities of recipient countries. It then reviews the objectives of those operations and key features of their content and design.

Patterns of Bank Crisis Response Financing Focused on Fiscal Management

A major part of the World Bank's financial support to crisis-hit countries was channeled through DPOs with a focus on fiscal management. For this evaluation, these operations were identified by using the thematic codes of their components as selection criteria (appendix E, section 2, for details of the methodology). During FY09–10, the World Bank approved 100 DPOs with some policy content in fiscal management in 66 countries for a total commitment amount of \$26 billion. This represented 63 percent of total commitments through DPOs in FY09–10.²

Crisis Response DPOs with a Focus on Fiscal Management

The majority of DPOs with fiscal management content were related to consequences of the crisis. DPOs with fiscal content that were approved in FY09–10 have been categorized as crisis response operations using the same criteria as else-

where in this evaluation (appendix E, section 2). Based on these criteria, of the 100 operations approved in FY09–10, 67 were crisis related, for a committed amount of \$23.3 billion in 48 countries (table 5.1 and appendix table E.2).³ The remaining 33 DPOs, for a total amount of \$2.7 billion, were allocated to 28 countries as noncrisis-related operations.⁴ The lion's share of the crisis response resources (88 percent) was provided through IBRD, and the remainder through IDA.

The recipient countries were mainly in the Europe and Central Asia, Latin America and the Caribbean, and East Asia and Pacific Regions. Europe and Central Asia represented 46 percent of commitments, whereas Latin America and the Caribbean and East Asia and Pacific combined absorbed 42 percent of the resource transfer (table 5.1). The regional concentration of financial transfers partly reflects the impacts of the global economic crisis, which radiated from its epicenter in the financial sector of the developed economies to the middle-income countries, mainly in the Europe and Central Asia, Latin America and the Caribbean, and East Asia and Pacific Regions, through financial and trade linkages. It also reflects the larger headroom of these countries relative to the maximum World Bank Group lending exposure from IBRD. Countries from the Africa, South Asia, and Middle East and North Africa Regions received comparatively lower financial support through operations with a focus on fiscal management. About 60 percent of IDA allocations for such operations were absorbed by countries in the Africa Region.

In most cases, crisis support was provided by augmenting commitments of DPOs that were programmed in the CPS or through new DPOs that were not previously programmed. Of the 67 crisis response operations with fiscal content, 21

were new operations not identified in the existing CPS that were initiated to address the consequences of the crisis. Seventeen were stand-alone operations, and 50 were part of a programmatic series that had either started before the onset of the crisis or were initiated during the crisis. Several of the programmatic DPOs received enhanced financing, with the amounts earmarked in the CPS increased in 26 of the 67 crisis response operations.

None of the disbursed crisis response DPOs with fiscal content was prepared under the Special Development Policy Loan Option.⁵ The lack of use of this instrument partly reflects an elastic use of the standard DPO instrument for crisis-hit countries.⁶ The accelerated processing of standard DPOs, the increase in commitments compared to the original CPS lending programs, and the supplemental DPO financing often made available rendered the Special Development Policy Loan option financially unattractive. Moreover, the requirement for presence of an IMF program made the Special Development Policy Loan option irrelevant for IBRD-eligible countries that faced the crisis with reasonably solid fiscal positions, as in many of these countries no IMF-supported program was in place.

Crisis Response DPOs and Lending Commitments According to Country Fiscal Positions and External Vulnerabilities

Options for fiscal management of the crisis were, to a large extent, shaped by the strength of country fiscal positions. Countries with high debt, irrespective of the level of the fiscal deficit, were particularly vulnerable to the crisis: To the extent a high debt level created large gross refinancing needs (depending on the profile of maturing debt), the virtual vanishing of

TABLE 5.1 Allocation of DPOs with Fiscal Management Content to Crisis-Affected Countries

World Bank Regions	Number of countries	Number of operations	Number of operations (% of total)	Committed amount (US\$ millions)	Share of committed amount (%)	IBRD loans (US\$ millions)	IDA credits (US\$ millions)
Africa	14	19	28.4	1,905.6	8.2	150.00	1,755.60
East Asia and Pacific	5	9	13.4	4,450.0	19.1	4,000.00	450.00
Europe and Central Asia	14	19	28.4	10,745.9	46.2	10,555.49	190.40
Latin America and the Caribbean	12	17	25.4	5,366.2	23.0	5,366.20	0
Middle East and North Africa	1	1	1.5	300.0	1.3	300.00	0
South Asia	2	2	3.0	513.7	2.2	0	513.70
Total	48	67	100.0	23,281.4	100.0	20,371.69	2,909.70

Source: IEG review, with data from World Bank.

international credit at the outbreak of the crisis increased the risk of debt distress—a risk further exacerbated in countries with large fiscal deficits. Fiscal adjustment to attain debt sustainability was a priority in most of these countries. Options for countercyclical response in these countries were virtually nonexistent, unless policies could be introduced that would clearly improve the fiscal situation in the future. By contrast, some countries with a large fiscal deficit but a low level of debt could consider options for partial deficit financing, with some debt build-up, and could thus let the fiscal automatic stabilizers operate. Countries with low levels of debt and deficit could use their fiscal space more proactively for countercyclical response through fiscal stimulus.

The assessment of fiscal positions of the 48 countries that received DPOs with fiscal management content is based on the fiscal deficit and the level of public debt before the crisis. IEG constructed an indicator of fiscal stress for this evaluation as the average of two rankings of the 48 client countries (i) by the level of fiscal deficit (in percent of GDP) in 2007–08 and (ii) by the level of gross public debt in proportion to GDP in 2007–08 (appendix E).⁷ Based on their average scores, the 48 countries were categorized on a continuum of fiscal stress, divided, for illustrative purposes, into three zones:

- Low fiscal stress (lower third of scores)
- Moderate fiscal stress (middle third of scores)
- High fiscal stress (upper third of scores).

However, it should be noted that, at a time of crisis, gross refinancing needs associated with a given level of fiscal deficit and (maturing) public debt may entail different levels of fiscal stress for emerging economies with capital market access

(such as IBRD borrowers) and low-income countries that mostly rely on financing from official sources (such as IDA borrowers). Emerging economies with market access may face a risk of sudden debt distress when credit flows evaporate, and rollover of maturing official debt of low-income countries may prove easier to handle. The Bank's flexibility in scaling up IBRD financing during the crisis may thus have been valuable to some client IBRD countries—by covering part of gross refinancing needs or by augmenting reserves as an additional defense line to vanishing capital market credit. An objective counterfactual scenario for the evaluation of such an impact is difficult to elaborate, however, and requires analysis of alternative scenarios country by country.

Forty-eight countries were identified to have received fiscal management–focused DPOs during the crisis. The majority of this group (25) fall into the zone of moderate fiscal stress; another 10 fall into the low fiscal stress zone; the remaining 13 fall into the zone of high fiscal stress (table 5.2). Countries within these categories entered the crisis from broadly varying fiscal positions: although countries in the low fiscal stress zone had, in 2007–08, a slight fiscal surplus and a public debt not exceeding 20 percent of GDP, countries in the high fiscal stress zone entered the crisis with an average fiscal deficit of 5.3 percent and public debt at 70 percent of GDP.

The majority of commitments of crisis response DPOs with a focus on fiscal management were concentrated in countries with moderate fiscal stress. Table 5.2 shows that the 25 countries in the moderate fiscal stress zone absorbed 54 percent of the total resources committed, through 37 of the 67 crisis response DPOs. The 13 countries in the high fiscal stress zone received about one-third of resources. The 10

TABLE 5.2 Fiscal Positions of Countries Receiving DPOs with Content in Fiscal Management

Fiscal position category	Number of countries	Number of operations	Number of countries (DPOs) with IMF facility	Committed amount (US\$ millions)	Share of total commitments (%)	IBRD loans and IDA credits outstanding (end of 2007; % of total for the 48 countries)	Committed amount (% of country GDP, 2009–10)	Average fiscal deficit (% of GDP, 2007–08)	Average public debt (% of GDP, 2007–08)
Low fiscal stress zone	10	11	5 (6)	3,080.8	13.2	9.9	0.8	1.2	20.1
Moderate fiscal stress zone	25	37	15 (21)	12,650.0	54.3	56.6	1.0	–1.2	38.6
High fiscal stress zone	13	19	10 (14)	7,550.6	32.4	33.5	0.9	–5.3	70.1
Total	48	67	30 (41)	23,281.4	100.0	100.0	0.9	–1.8	43.3

Source: IEG review of crisis response DPOs.

Note: DPO = Development Policy Operation; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; GDP = gross domestic product; IMF = International Monetary Fund.

countries in the low fiscal stress zone absorbed 13 percent of committed resources. Commitments in proportion to client country GDP varied, on average, from 1 percent in countries with “moderate” fiscal stress to 0.8 percent in countries with “low” fiscal stress to 0.9 percent in countries that were highly affected, with considerable variation among individual countries. Financing through DPOs with a focus on fiscal management broadly reflects the pattern of World Bank Group pre-crisis exposure to the 48 client countries based on these countries’ pre-crisis fiscal stress. The share of financing to the 10 countries with low fiscal stress slightly exceeded, by 3.2 percentage points on average, the share of outstanding IBRD and IDA debt of these countries before the crisis (at the end of 2007).

Among the 67 crisis response DPOs, 41 coincided with IMF facilities (Stand-By Arrangement, Poverty Reduction and Growth Facility, or Flexible Credit Line) in 30 of the 48 recipient countries. There was also cofinancing or parallel financing by other donors in about half of the 48 crisis-hit countries supported by the Bank.⁸ IMF facilities were in place in 77 percent of countries in the high fiscal stress zone and in 60 percent of those in the moderate fiscal stress zone. An IMF facility was present in about half of the countries in this sample with low fiscal stress (table 5.2).

Financing through DPOs with a focus on fiscal management broadly reflected the pattern of the Bank’s pre-crisis exposure to these countries. However, the pattern of Bank financing according to client country fiscal stress needs to be interpreted with caution. First, it takes time to formulate good policies, and thus it comes as no surprise that a significant part of financing was directed to countries with moderate and low fiscal stress. Moreover, the process may be easier in countries where there is significant engagement. Second, in countries with low or moderate fiscal stress, space existed for countercyclical response. Where fiscal stress was high, a main challenge was to help countries formulate appropriate policies to attain sustainable fiscal positions, although room for financing the deficit was limited.

Creditworthiness considerations may have also limited the room for lending in some of these countries. The presence of an IMF program may have had an ambiguous role. Most of the countries under high fiscal stress (10 of 13) had an IMF facility in place, which may have strengthened the Bank’s proclivity to lend or, conversely, may have reduced these countries’ need for incremental Bank financing. Also, as discussed in chapter 2, flexibility in the allocation of Bank resources to client countries depends on the financing window: In IDA countries, allocation is determined largely by IDA’s available resource and performance-based

allocation system and there is limited scope for reallocation, although additional front-loading possibilities were offered by Bank management. By contrast, crisis-response financing could be significantly stepped up in IBRD countries and, as noted, the vast majority of financing through fiscal management-focused DPOs (88 percent) was provided through IBRD.

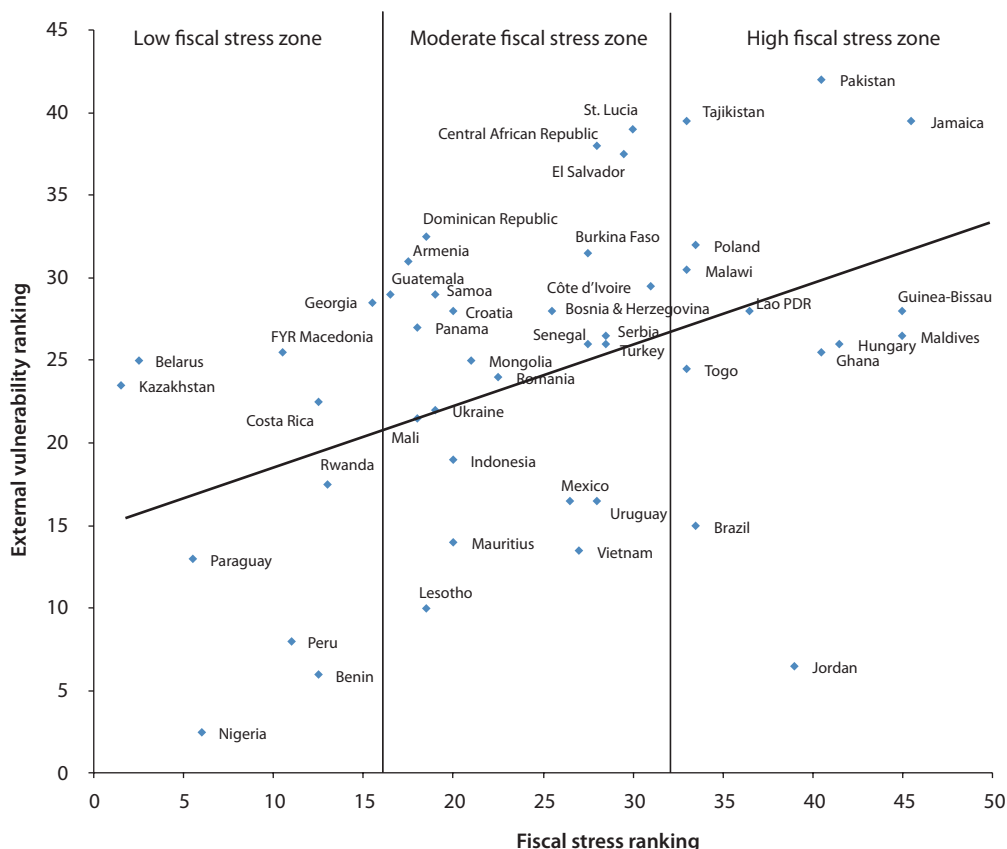
Countries that received DPOs with a focus on fiscal management entered the crisis with varying degrees of external vulnerabilities that generally reflected the soundness of their fiscal positions. For the purpose of this evaluation, the external vulnerabilities of the 48 countries were approximated by two metrics, measured at the end of 2008: (i) the import coverage, in months, of foreign exchange reserves, and (ii) the foreign-currency denominated debt in proportion to exports. A composite indicator of external vulnerability was constructed similarly to the indicator of fiscal stress, based on these two sub-indicators (appendix E, section 2). As fiscal imbalances often result in external current account imbalances that create external debt or reduce the adequacy of foreign exchange reserves, the indicator of external vulnerabilities at the onset of the crisis was positively and significantly correlated with the degree of fiscal stress (figure 5.1). Thus, the findings concerning the Bank’s fiscal management-focused DPOs apply broadly to categorizations according both to fiscal stress and to vulnerabilities of external positions of the recipient countries.

The Content of Crisis Response Operations in Fiscal Management

A primary objective of crisis-response DPOs,⁹ though not always explicitly stated, was to provide budget support or ensure that short-term gross financing needs would be met at a time when international credit markets were closed. Financing of countercyclical programs was also an objective in countries that had the fiscal space for stimulus—either through the action of automatic stabilizers in the budget (Uruguay and Mexico) or through proactive stimulus packages (Indonesia, Peru, and Vietnam). In some cases, the Bank’s stepped-up financing allowed the refinancing of existing debt falling due (El Salvador and Jamaica). Sometimes the increase in the DPO commitment amount came at the expense of other investment lending programs in the CPS that were cancelled or postponed (Uruguay).

The 67 crisis-related DPOs with a focus on fiscal management most often included various subthemes. The fiscal subthemes occurred with varying frequency, ranging from 30 to almost 90 percent of the portfolio reviewed by IEG (figure 5.2). Three of these subthemes were most prominent: measures to strengthen macroeconomic management and ensure fiscal sustainability; structural reforms aimed at

FIGURE 5.1 Fiscal Stress and External Vulnerabilities of Countries Receiving DPOs Focused on Fiscal Management



Source: IEG, based on IMF and World Bank data.

improving the cost-effectiveness of public expenditures; and public financial management reforms, including procurement. Program design around these three pillars was common and was often favored over more complex, and perhaps more sensitive, measures such as reforms in tax policy and revenue administration or civil service reforms.

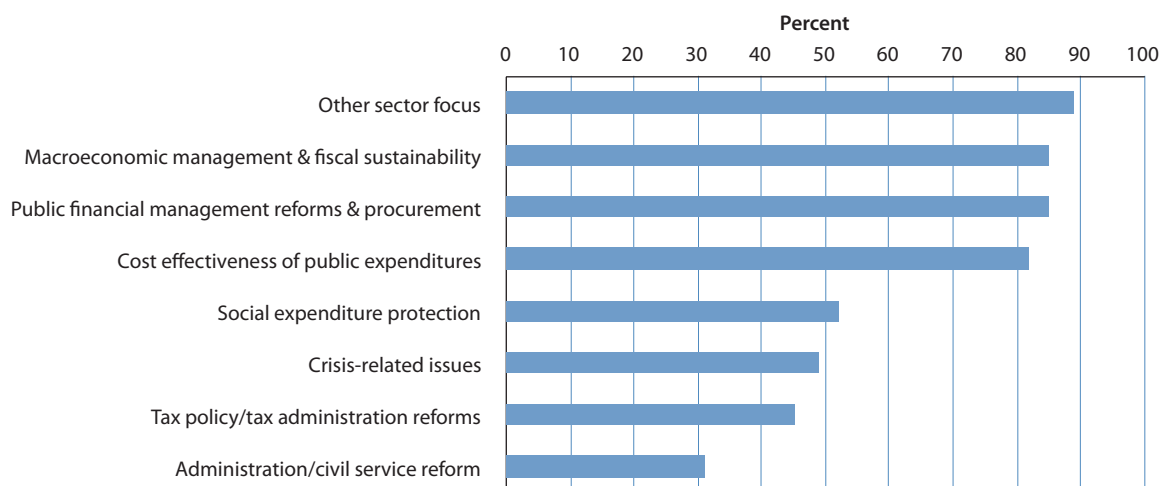
However, often the crisis response DPOs included policy components unrelated to the fiscal incidence of the crisis. In addition to a fiscal management component, 90 percent of the DPOs included components with a different sector focus. And in about half of the DPOs these components were designed to address crisis-related issues (figure 5.2). Examples of crisis response stand-alone operations with components unrelated to the crisis include the DPOs in El Salvador (primary education, science and technology policy), Costa Rica (telecom sector, insurance, protection of intellectual property rights), Jordan (access to finance and business environment reforms), and Mexico (trade policy reform). In most cases, the fiscal measures supported by DPOs were part of an ongoing structural reform agenda, especially in tax administration and public financial management. However, in some cases, these measures were not necessarily called for from a

countercyclical or consolidation perspective (for example, in El Salvador, Costa Rica, and Peru).

The fragmentation of policy components into sector policy agendas unrelated to the crisis was unwarranted in stand-alone operations designed with the aim of responding to the crisis. Content unrelated to the crisis could be justified in programmatic DPOs, as these operations typically support several objectives under the CPS pillars over time. However, stand-alone operations were ill designed to support structural policy reform agendas in other sectors, as there were neither follow-up actions nor tracking of progress over time.

Some DPOs that were part of programmatic series were not modified to address the consequences of the crisis. In Vietnam, for example, the 2009 Poverty Reduction Support Credit-8 was contemporaneous with the outbreak of the crisis and the government's response to it through a significant stimulus package. It was approved under the IDA Fast-Track Facility, and the original amount of \$150 million was augmented to \$350 million—and supplemented by as much as \$240 million by other cofinanciers. Yet its content was unrelated to management of the crisis. Similarly, the re-

FIGURE 5.2 Content of Crisis-Related DPOs in Fiscal Management (in percent of operations)



Source: IEG DPO portfolio review.

sources provided under the 2009 Public Investment Reform DPL (\$500 million) supported the financing of the stimulus package, but the program was focused on strengthening the public investment project cycle.¹⁰ In Peru, the content of the second DPL in the series (\$350 million) was not modified in response to the crisis, and supplemental financing of \$330 million was provided in the fall of 2008. Only the third DPL, approved in the fall of 2009, was modified to include, ex post, key measures in the government’s stimulus plan.

Only about half of crisis response DPOs with fiscal content included measures to protect social expenditure programs and infrastructure programs. The absence of such measures in half of the crisis response DPOs seems at variance with one of the stated strategic directions of World Bank crisis support—protecting social programs and investments in infrastructure. In some cases, as analyzed in chapter 6, the Bank provided crisis-related financial support to social expenditure programs and infrastructure through investment lending operations or DPOs in these sectors.¹¹ However, in parallel with financing of specific social programs, the crisis response DPOs with a focus on fiscal management would have been an important instrument to address trade-offs in the protection of spending in the social sectors and infrastructure within an affordable medium-term fiscal envelope. This is because the larger the share of public spending to be protected, the less effective any attempt to improve fiscal positions during a crisis is likely to be. In countries with adequate fiscal space this might have been a secondary concern, but in fiscally stressed countries measures would have been needed to ensure that countercyclical spending remained fiscally affordable. As further analyzed in the next section, there are differences among Bank DPOs regarding the extent of protection of these expenditures that reflect the availability or lack of fiscal space.

Similarly to the fiscal management–focused DPOs with components unrelated to the crisis, the Bank extended countercyclical financing through DPOs with sector focus unconnected to the global crisis—with “environmental DPOs” a prominent example of such operations. Eight DPOs with special focus on environmental management and climate change were approved during the crisis, in six countries, for a total commitment amount of \$3 billion. In four of these countries (Brazil, Colombia, Mexico, and Peru), these DPOs were recalibrated in response to the financial crisis by advancing their schedule of preparation and increasing the commitment amount, with no noticeable change in content—although in Brazil the program was broadened to include reforms at the Ministry of Environment and the National Water Agency (appendix E, section 3).

Environmental DPOs provided a financing safeguard in the face of the crisis and, to some extent, facilitated the financing of fiscal stimulus. Had a different facility been available for flexible countercyclical support to countries with solid fiscal fundamentals, the Bank might have been able to avoid using sector operations that were seemingly unrelated to the global crisis for crisis support. Moreover, it is doubtful that the crisis-driven increase in funding will help achieve higher environmental objectives through these DPOs because their content was not strengthened in parallel with the augmentation of their amount.

The Relevance of Operation Objectives and Design in Fiscal Management

This section reviews the relevance of objectives and design of crisis response operations in fiscal management from two angles: first, from the angle of strengthening fiscal positions,

especially in countries that entered the crisis with fiscal vulnerability and, second, from the perspective of providing support to countercyclical fiscal policies, where fiscal space for stimulus existed or could be created. It then looks at fiscal outcomes in recipient countries in comparison to fiscal positions before the crisis. Finally, it reviews the focus areas of structural fiscal reforms supported by these operations, especially in public financial management, and concludes with a discussion of their analytical underpinnings.

Support to Strengthening Fiscal Positions

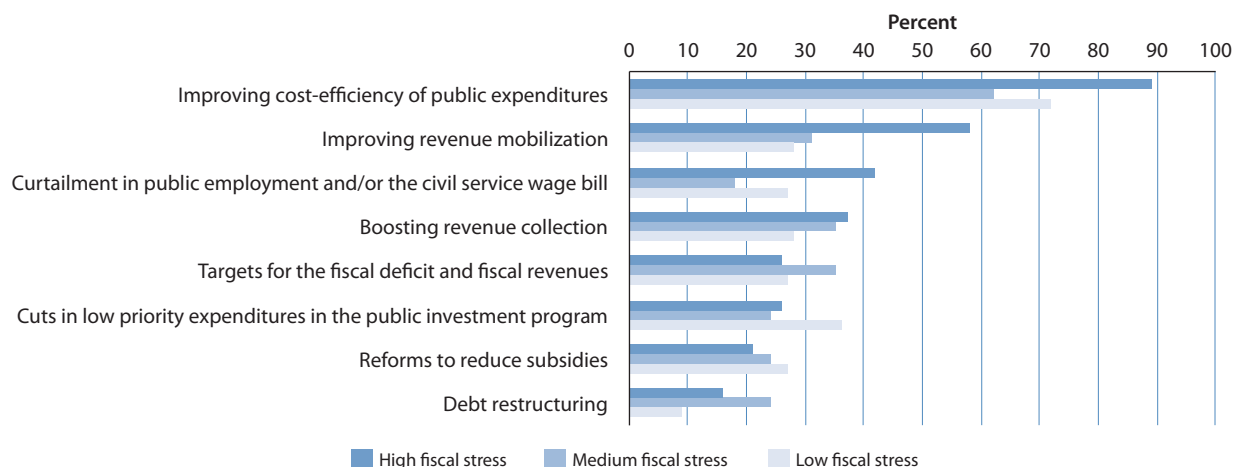
To help countries attain stronger fiscal positions, most of the crisis response DPOs aimed to improve the cost efficiency of public expenditures. The streamlined review of the 67 crisis response DPOs reveals that such measures were included in about two-thirds of the DPOs and in almost all the countries in the high fiscal stress zone (figure 5.3). Such measures included, for example, improvements in the targeting of social entitlements or cuts on low-priority administrative expenditures.

However, other potentially demanding or politically sensitive measures were included in these operations with much lower frequency. Such is the case of measures to better control the wage bill, reduce subsidies, or curtail low-priority public investments, which occurred in one-third or less of crisis response DPOs. Equally low was the frequency of tax policy and tax administration reforms to boost revenue collections (figure 5.3). Prior actions or triggers that required specific targets for the fiscal deficit, fiscal revenues and expenditures, or the public debt ratio were also less frequent. Such targets were included in less than one-third of the reviewed crisis response DPOs, with no noticeable difference in frequency regarding the strength of country fiscal positions.

The measures of fiscal consolidation supported by fiscal management-focused DPOs reflected only to a limited extent differences in countries' fiscal positions. The streamlined review of the 67 crisis response DPOs reveals that the frequency of expenditure or revenue measures to attain a stronger fiscal position differed only to a limited extent across countries (figure 5.3). Measures to help better control the wage bill and reform the tax administration occurred more frequently in DPOs in countries with high fiscal stress—although their frequency remained generally low even in these countries. Prior actions to reduce subsidies or curtail low-priority public investments were used infrequently across countries, regardless of their fiscal stress at the onset of the crisis. It is notable that targets for the fiscal deficit, fiscal revenues, expenditures, or the public debt were not set frequently enough in DPOs for countries in the high fiscal stress zone, despite the more demanding fiscal challenges facing these countries and the higher surrounding risks as a result of their weak fiscal positions.

Reflecting the above patterns in the design of crisis response DPOs, measures to attain sound fiscal positions were often insufficient in the short run. The in-depth reviews conducted by IEG (appendix E, section 4) indicate that DPOs often did not support specific expenditure reforms to reduce or reprioritize spending on a sustainable basis (Costa Rica, Jamaica, Jordan, Mexico, and Serbia). In some cases, the operations focused on tax policy or tax administration reforms that were not sufficient to reduce the budget deficit as needed (Costa Rica, Jordan). Often, although support for fiscal consolidation was an objective of the DPOs, the measures focused on improving budget processes over the medium term rather than on actionable expenditure ratio-

FIGURE 5.3 Measures to Strengthen Fiscal Positions Supported by Crisis Response DPOs (in percent of operations according to country fiscal stress zone)



Source: IEG DPO portfolio review.

nalization or revenue mobilization measures. For example, in Serbia the program supported some important medium-term reforms, especially in public financial management and pensions, but a nominal freeze of wages and pensions was included in the 2009 DPO as a benchmark, not a prior action. In some cases, the prior actions were backward looking, referring to realized fiscal targets, with no agreed measures that would have resulted in sustainable performance during the crisis and beyond (Ukraine). Yet in some other cases the DPOs supported potentially reversible expenditure reductions, such as the curtailment of the public investment program in Jordan in 2009.

In a few cases, however, the operations focused on bold fiscal measures deemed necessary to attain a sound fiscal position. For example, the 2009 DPO in Ghana supported a hiring freeze in the public sector and elimination of “ghost workers” through a public employment audit in all ministries and government agencies. The government took additional measures to curtail investment and recurrent spending as way of reducing a deficit that had attained 14.5 percent of GDP in 2008. As a result, the deficit was reduced to 6.6 percent in 2009, in line with an ambitious target of 4.5 percent in 2011.

In several cases, the impact of the crisis on economic activity was underestimated, resulting in an increase in the fiscal deficit and public debt that surpassed projections (Costa Rica, El Salvador). In countries with reasonably sound fiscal positions, the Bank’s operations rightly accommodated the countercyclical worsening of the fiscal balance. However, the worsening of the fiscal balance was indefensible and in some cases required a swift fiscal tightening to maintain a sustainable fiscal position (Poland). In El Salvador, the government plans to submit legislation over the next two years to raise additional tax revenues equivalent to 3 percent of GDP over the medium term to attain a sound fiscal position. The 2009 loans from the World Bank Group and IDB, which were meant to refinance foreign debt falling due in 2011, were used to finance the larger-than-expected budget deficit. New foreign debt had to be issued in January 2011 to pay off the debt falling due in mid-2011 at high interest rates because of the downgrade of the country’s sovereign debt ratings.

Effectiveness of Operations with Deferred Drawdown Options in Strengthening the Credibility of Country Financing Programs

Some DPOs designed for precautionary purposes have succeeded in improving conditions to access credit markets during the crisis. Of the 67 crisis response DPOs with fiscal content, only 9 were designed as precautionary instruments with DDOs in 7 countries (Costa Rica, Guatemala, Indonesia, Mauritius, Panama, Peru, and Uruguay).

A good example of a DPL-DDO that served its purpose well is the Public Expenditure Support Facility of \$2 billion for Indonesia, approved in March 2009, and complemented by another \$3 billion from Australia, Japan, and ADB. The aim of the contingent support package was to provide a backstop for essential public expenditures in the 2009 budget, while reassuring markets about Indonesia’s ability to meet its financing needs at reasonable cost. Indonesia was able to access the market again by mid-2009, with larger issuance at long maturities and lower yields on new issues. The loan was thus neither drawn nor rolled over, and it was closed as planned at the end of 2010. It is possible that the significant improvement in market access for Indonesia reflects, to some extent, the positive impact on confidence of the contingent credit line provided by the DPL-DDO (appendix E, section 4).

Similarly, in Peru, the July 2008 DPL-2 was designed with a DDO and was followed, in November 2008, by supplemental financing of \$330 million as a DDO. Although Peru had fairly strong balance of payments and budget positions, these operations were designed to signal to markets that the country had enough buffers to deal with the financial turmoil. The direct financial impact of the crisis on Peru was contained and the supplemental DPL-2 financing was not drawn. Peru was one of the first Latin American countries to issue sovereign debt in the second half of 2009.

In other cases, there was no impact of the contingent feature of DPOs on market access. The 2008 DPO-2 in Uruguay (\$400 million) and the 2009 DPO in Costa Rica (\$500 million) were also prepared as precautionary crisis response operations, with DDOs, as both countries were vulnerable to capital outflows. The way these operations were handled differs, however, from the cases of Indonesia and Peru.

In Uruguay, the loan was drawn immediately following effectiveness, in January 2009, to cover the increasing financing needs of the budget.

In Costa Rica, the DPL-DDO was approved in April 2009, at the same time as a 15-month Stand-By Arrangement with the IMF in the amount of \$726 million. Congressional approval of the loan was delayed until August 2010, but it was drawn immediately after approval. At the same time, the authorities continued to treat the IMF arrangement as precautionary. The DPL-DDO seems to have served in this case as a debt management instrument, to lengthen the average maturity of the increasing public debt, with the IMF Stand-By Arrangement serving as an insurance instrument against future market turmoil.

As suggested by the case of Indonesia, especially when there is no IMF contingency financing in place, DPL-DDOs can

help improve the credibility of the government’s financing program if the commitment amount is substantial and the country’s fiscal position is reasonably sound. The Bank could consider using the DDO option more frequently in future crises, specifically in countries that meet these conditions. However, in Indonesia, the DPL-DDO was subject to certain restrictive drawdown conditions built in the financing strategy issued by the government—as one of the prior actions for its approval by the Bank.¹² A more flexible design would have made the DPL-DDO more accessible to the authorities without the need for a waiver or a change in drawdown conditions that may have sent a negative signal to markets.

Support to Countercyclical Fiscal Policies

As with measures to strengthen fiscal positions (figure 5.3), there is variance across DPOs with fiscal content regarding the emphasis placed on countercyclical measures and the design of these measures (figure 5.4). These differences reflect, to a considerable extent, the fiscal space available to client countries at the onset of the crisis. There were also differences in the attention of these DPOs to the fiscal affordability of countercyclical measures, to ensure that a sound fiscal position would be maintained post-crisis.

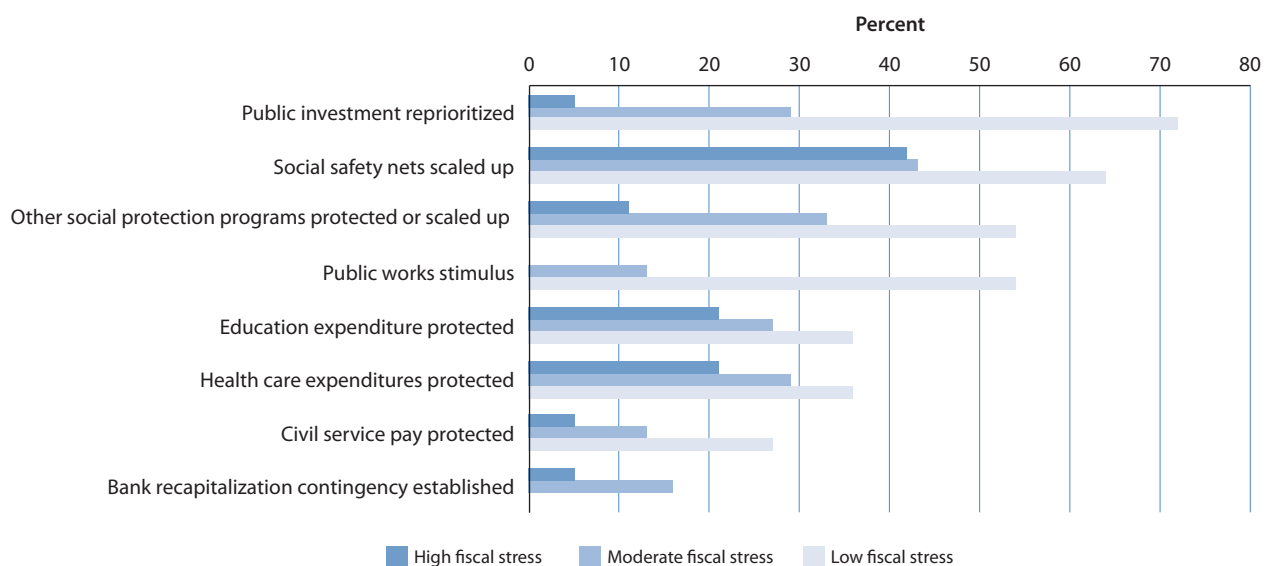
Attention to Public Expenditure Allocations for Social Protection Was Mixed

Less than half of crisis-related DPOs included provisions to safeguard expenditures in the social sectors (figure 5.4).

In particular, as found by the streamlined reviews of the 67 crisis response DPOs, expenditures for social safety net programs were protected or scaled up in about half of these operations. Other social protection programs were safeguarded less frequently through prior actions. Similarly, expenditures for education and health care were protected in less than one-third of the crisis response DPOs that had a focus on fiscal management. Ascertaining whether the level of expenditures in education and health was adequate in the countries where measures to protect these expenditures were not envisaged by the Bank’s DPOs is beyond the scope of this evaluation. Such an assessment was by and large missing in the operations reviewed.

DPOs in countries with adequate fiscal space more frequently included measures to protect or scale up social expenditures than did DPOs for countries that were fiscally constrained. In more than 60 percent of DPOs in countries in the low fiscal stress zone expenditures for social safety net programs were protected or scaled up—a significantly higher proportion compared to countries with moderate or high fiscal stress (figure 5.4). Expenditures for other social protection programs, such as pensions and disability, were protected even more frequently in countries with fiscal space (low fiscal stress) than in countries with moderate or high fiscal stress. Expenditures for education and health were also protected more frequently in countries in the low fiscal stress zone. However, even in these countries, these expenditure

FIGURE 5.4 Countercyclical Measures Supported by Crisis Response DPOs (in percent of operations, according to country fiscal stress zone)



Source: IEG DPO portfolio review.

Note: DPO = Development Policy Operation.

programs were safeguarded in only about one-third of the Bank's DPOs with a focus on fiscal management—a proportion that was reduced to 20–25 percent in countries with high or moderate fiscal stress.

The public investment program was reprioritized to maintain key growth-promoting investments in countries with fiscal space, but less frequently so when fiscal stress was more elevated. As found by the streamlined reviews of the 67 DPOs conducted by IEG, reprioritization of the public investment program occurred in 70 percent of the DPOs in countries with low fiscal stress (figure 3.4), so that key capital expenditures could be maintained or scaled up to support the economy during the crisis. Reprioritization occurred with lower frequency in 30 percent of DPOs in countries under moderate fiscal stress, where some measured countercyclical response was possible. Only in a handful of DPOs in high fiscal stress countries could such measures be supported.

More than half of fiscal management–focused DPOs included provisions for scaling up public works in countries with fiscal space (low fiscal stress). The frequency of support to public works was much lower in DPOs for countries with moderate fiscal stress, whereas such measures were absent in DPOs where fiscal stress was high. Similarly, protection of civil service pay occurred with low frequency in DPOs for countries with moderate or high fiscal stress (figure 3.4). However, measures to safeguard civil service pay were present in about 30 percent of DPOs when country fiscal stress was low.

Fiscal measures to protect or scale up pro-poor expenditures in response to the crisis were often targeted with adequate cost estimates. In its in-depth reviews of fiscal management–focused DPOs, IEG found several examples of such measures in DPOs for El Salvador, Ghana, Georgia, Jordan, Poland, and Romania (section 1 of appendix E, section 3 on findings from in-depth operation reviews). In most of these countries, the DPOs helped expand or hold the line on the level of essential social expenditures, expanded and better targeted social spending, and supported efforts to increase the efficiency of spending in the future.

However, some DPOs that supported countercyclical policies or stimulus packages did not pay enough attention to the allocation of higher spending to specific expenditure programs—including for social protection or for public investment with high impact on employment and growth (Mexico in 2009 and Costa Rica). In some cases, the DPO supported frontloading of already programmed current and capital expenditures in the budget, with no attention to expenditure allocations (Mexico in 2009).

In Nigeria, for example, one of the key objectives of the 2009 Development Policy Credit was to help maintain sound fiscal policies in an uncertain environment. It sought to accomplish this by supporting a revised budget based on a conservative oil price assumption and continuing to save excess oil revenues in the stabilization fund (excess crude account). The program supported maintaining federal expenditures in 2009 within a range of 23–25 percent of GDP. This outcome was achieved by releasing savings from the excess crude account equivalent to 4.3 percent of GDP. However, the program contained no provisions for the protection of specific expenditure categories, including in the social sectors, or for reprioritization of expenditure allocations within a tighter budget envelope. A prior action to improve the execution of the capital budget was included in the program with the aim of increasing expenditure on labor-intensive projects, but capital expenditures declined to 3.8 percent of non-oil GDP in 2009, from 4.6 percent in 2008.

In other cases, DPOs provided implicit support to government countercyclical programs by assessing these programs—and the associated macro framework—as satisfactory, without including any of the countercyclical measures in their fiscal management components (Costa Rica, Indonesia, Uruguay, and Vietnam). A notable exception is Peru, where, although the 2008 second Fiscal Management and Competitiveness DPL and the 2009 Results and Accountability DPL did not contain provisions for expenditure allocations to safety net programs, the September 2009 third DPL for Fiscal Management and Competitiveness was modified to include measures in the government's stimulus package. As a result of the government's commitment to pro-poor spending during the crisis, programs targeted to the extreme poor were scaled up from 1.4 percent of GDP in 2007 to 1.8 percent in 2010. The Indonesia Public Expenditure Support Facility supported provisions in the 2009 budget to sustain and, if necessary increase, critical public expenditures in the event of a pronounced growth slowdown, though without specifying thresholds below which such provisions would be triggered.

Attention to Fiscal Space for Countercyclical Policies

IEG's in-depth reviews indicate that crisis response DPOs did not always pay due attention to expenditure allocations or the revenue mobilization measures needed to create fiscal space for countercyclical spending. As a result, in some cases, higher spending was concentrated on expenditures that were not easily reversed, such as civil service wages, and that may end up permanently worsening the fiscal position (Costa Rica). In other cases, especially in countries that

did not have much room for deficit financing, the measures envisaged to help create fiscal space, especially in tax policy and tax administration, were modest and could not prevent a deterioration of the fiscal position (Costa Rica, El Salvador, Uruguay). In Uruguay, tax revenue performance was in line with targets in the crisis-response DPO, but the primary fiscal surplus fell short of the targets envisaged.

In El Salvador, for example, more emphasis would have been warranted on comprehensive measures to reduce general subsidies to finance the new social spending supported by the two crisis-related DPOs. The reduction in electricity subsidies for large consumers and some new indirect taxes were steps in the right direction to open up fiscal space. However, they were not enough to offset the impact of the crisis on the fiscal position, and a reduction in a transportation subsidy supported by the second DPO was later partly reversed as oil prices rose in 2011.

As with the use of the environmental DPOs, in some cases the Bank's fiscal management-focused DPOs provided financing for countercyclical response without relevant policy content. An example of this approach is the Poverty Reduction Support Credit-8 and Public Investment Reform DPL in Vietnam, which provided financial resources for the government's stimulus package, although the operations did not include any policy content to support or guide this package. In some cases, as in Peru, prior actions for countercyclical policy were an inherent part of the Bank's DPOs. The design and fiscal affordability of countercyclical stimulus programs seem to have been more appropriate when these programs have been included in Bank DPOs (appendix E, section 4).

Resilience of Fiscal Positions in the Aftermath of the Crisis

A majority of client countries that received fiscal management-focused DPOs emerged from the crisis with weaker fiscal positions. In 28 of the 48 client countries, the fiscal deficit and public debt (in proportion to GDP) were higher in 2010 than their average levels in 2007–08, before the crisis (figure 5.5).¹³ A caveat applies, as countries resorted to borrowing in response to the crisis; thus, some increase in debt in proportion to GDP was to be expected in its aftermath. As complementary indicators of fiscal outcomes, for the 16 countries where IEG conducted in-depth reviews, the fiscal deficit and public debt projected during the crisis for 2011 were compared to the most recent post-crisis projections for the same year (appendix E, section 4).

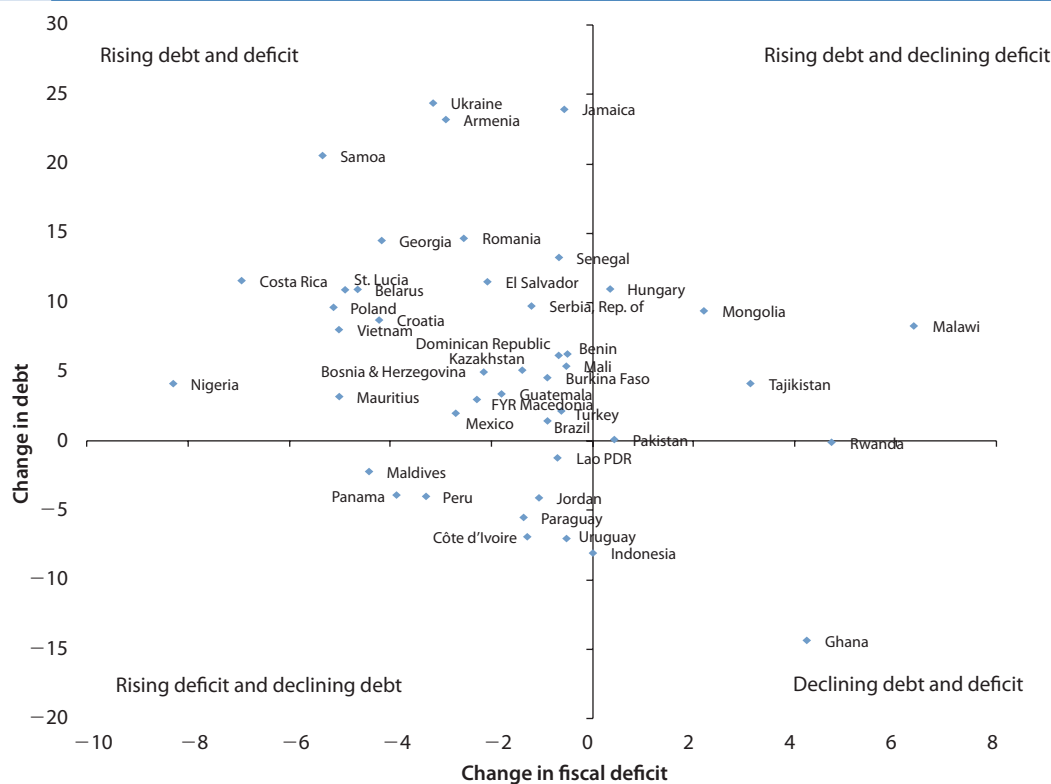
In all these countries, either the public debt or the fiscal deficit projected post-crisis for 2011, or both, exceeded the pre-crisis projections. A higher public debt was expected in

13 countries, and larger fiscal deficit was expected in 11. As this analysis does not rely on cyclically adjusted fiscal deficits, which are available for only few emerging economies, it is impossible to assess whether the deterioration of fiscal positions was commensurate with the growth contraction that resulted from the crisis or reflected some fiscal stimulus that still persisted in 2010.¹⁴ Assessing whether the fiscal positions post-crisis are consistent with debt sustainability is beyond the scope of this evaluation. However, countries with a significant deterioration of their fiscal positions face the challenge of fiscal consolidation, so as to be prepared against the risk of a possible fading of the global recovery.

Weak fiscal positions after the crisis tend to be associated with some weaknesses in the design of fiscal management-focused DPOs. As noted in IEG's streamlined and in-depth reviews, the Bank's DPOs often paid insufficient attention to the available space for fiscal stimulus, to the reversibility of stimulus measures, and to forward-looking measures to attain fiscal sustainability. Often the impact of the crisis on fiscal positions was underestimated, as indicated by the larger than initially projected fiscal deficits and/or debt for 2011 in the countries where in-depth reviews were conducted. In some cases, DPOs provided countercyclical financing without policy content related to the crisis. Where such weaknesses in the design of the Bank's DPOs were present, the deterioration in fiscal positions after the crisis was noticeable. In some cases this partly reflected ill-designed stimulus measures (Costa Rica, El Salvador, Vietnam), insufficient measures of fiscal consolidation and underestimation of the fiscal impact of the crisis (Poland, Romania, Serbia), or a combination of these factors. In Jamaica, measures supported were initially insufficient to reverse the dynamics of public debt, and in Nigeria the Bank's support could not help manage the budget's procyclicality resulting from the rebound in the price of oil after the crisis. In a few countries with high fiscal stress at the onset of the crisis, there is evidence of an overall improvement of the fiscal position (Ghana) or of a reduction in debt with only a moderate widening in the fiscal deficit (Jordan).

Associating fiscal outcomes with the Bank's fiscal management-focused DPOs is subject to strong caveats, however, and is not amenable to evaluation. In addition to the noted limitations of the overall fiscal deficit as indicator of fiscal performance, the lack of counterfactual fiscal outcomes in the absence of Bank support calls for caution in the assessment of the results of this support. Also, the Bank's support was often provided as part of joint support packages with other development partners—especially the IMF—thus further complicating attribution. Finally, many of the Bank's crisis response DPOs that are part of programmatic series

FIGURE 5.5 Change in Overall Fiscal Deficit and Gross Public Debt in Countries that Received DPOs with a Focus on Fiscal Management, 2010 Compared with Average for 2007–08 (in %)



Source: IEG, based on data from IMF 2010e.

Note: Negative (positive) signs are assigned to fiscal deficits (surpluses) in 2007–08 and 2010.

have yet to be completed, thus making the assessment of their results premature.

Support to Structural Fiscal Reforms

Public financial management reforms were a key focus area of crisis response DPOs. Based on the streamlined portfolio reviews conducted by IEG, measures to improve budget planning, execution, comprehensiveness, and transparency were present in 88 percent of the 67 crisis-related DPOs. Public financial management reforms were supported in 15 of the 16 countries where in-depth operation reviews were conducted for this evaluation (appendix table E.3). Reform of budget processes was a common focus area in all 15 countries—with budget preparation attracting particular attention in 11 countries and budget execution in 9 countries. Cash management and public procurement were the next most common public financial management reform areas. Tax or customs administration measures, in some cases both, were included in DPO programs in 9 of the 16 focus countries. Reforms of external audit and debt management were pursued in fewer cases.

Some public financial management reforms, especially in financial management and budget comprehensiveness and

execution, should pay off in the short term by assisting fiscal consolidation programs in countries with weak fiscal positions. Such is the case, for example, of the detailed quarterly fiscal out-turns initiated in Ghana; the upgraded internal audit functions in Jamaica; the spending limits by line ministries, prior to budget formulation, introduced in Romania; and the medium-term expenditure ceilings and tighter budget control and monitoring arrangements in Serbia.

In many countries, reforms were part of an integrated approach to strengthening public financial management systems and institutions. Examples of such an approach include Indonesia, Jamaica, Poland, and Serbia—although priorities and results differed across these countries (appendix E, section 4). Crisis response DPOs have continued to support the introduction of medium-term expenditure frameworks that should help improve the predictability of the budget and its consistency with debt sustainability. Rolling out of such frameworks has been supported in Georgia (for the public investment program), Mexico, Poland, Romania, and Serbia, but progress in this direction has varied across countries. The introduction or implementation of fiscal rules, limiting the increase in public spending or the

level of the fiscal deficit, was supported in some countries, notably in Peru and Poland.

However, in some cases—including in countries with weak fiscal positions or weak budget processes—reforms to strengthen budget preparation and execution were partial or piecemeal. In Jordan, for example, public financial management support in the 2008 DPL was limited to the adoption of an enhanced calendar for budget preparation. This could be a move toward a more strategic view of budget preparation, but, at the same time, an enhanced budget calendar is an administrative reform that is not embodied in a law or regulation and can easily be bypassed. In Nigeria, the program supported some important public financial management reforms (see below), but on the non-oil revenue side the program targeted an increase of federal tax collections in proportion to non-oil GDP, without including any measures for achieving this target, although it supported some limited tax administration reforms. Some of these difficulties may be due to the difficulties of engaging in a dialogue on medium-term reform in the midst of a crisis.

Although some public financial management reforms were not necessarily called for from a countercyclical or a fiscal consolidation perspective, strengthened public financial management and revenue administration could improve fiscal outcomes for any given fiscal measures in place. Promoting the results orientation of the budget, supported by the DPOs in Costa Rica, Georgia, Indonesia, Peru, and Poland, is expected to help generate fiscal space for priority expenditures by increasing attention to spending outcomes in the formulation of the budget. When these reforms come to fruition, the capacity to protect priority expenditures in future crises would be expected to improve. However, these reforms have a long gestation period, with the introduction of performance budgeting still largely work in progress in all focus countries.

Because public financial management reforms typically require follow-up actions over an extended period to attain the expected results, stand-alone crisis response operations were not an appropriate design to support these structural reform agendas. This was the case for the implementation of public expenditure evaluation systems in Mexico and for results-based budget management in Costa Rica. In Nigeria, the stand-alone Development Policy Credit supported highly relevant measures to improve cash management, upgrade public procurement regulations to the highest international standards, and improve transparency of contract awards. However, the absence of DPO programmatic engagement in these areas will make it difficult to trace the medium-term results of Bank support and keep focus on the medium-term

policy agenda. Some of these reforms are being supported through a technical assistance lending operation.

By contrast, Romania is an example of a country where the Bank initiated a crisis response operation in 2009 as part of a programmatic DPL series, cognizant that the implementation of the structural fiscal reforms to bring the fiscal position on a sustainable footing would require time. It would also require analytical and technical assistance in areas such as public pay, medium-term budgeting, and pension modeling. Building the knowledge base for this assistance should be facilitated by the programmatic engagement initiated in 2009.

Although the crisis response DPOs kept a consistent focus on strengthening public financial management systems and institutions, structural fiscal reforms in some important areas remained unaddressed (appendix E, section 4), reflecting the difficulties of incorporation of such elements during the crisis. In Nigeria, for example, the 2009 Development Policy Credit could have promoted better transparency and predictability in the operation of the Excess Crude Account. This would help meet expenditure priorities over time in a context where the high dependence of the budget on volatile oil revenues imparts procyclicality on spending. In Indonesia, the fall in energy prices triggered by the crisis could have provided an opportunity to the Bank's DPOs and Public Expenditure Support Facility to help reduce the sizeable energy subsidies, using the resulting fiscal space to scale up pro-poor social programs and investment. In Vietnam, the 2009 Poverty Reduction Support Credit and the Public Investment Reform DPL could have addressed long-standing challenges in the design and execution of the federal budget on the basis of generally accepted international principles.

Analytical Underpinnings of Crisis Response Operations in Fiscal Management

Despite stretching its administrative budget to support stepped-up lending during the crisis, the Bank maintained a steady flow of AAA with a focus on public finance (table 5.3). The Bank completed 102 AAA with public finance content during the crisis (FY09–10), a somewhat higher delivery rate than the 188 pieces in the four fiscal years preceding the crisis (51 AAA deliveries per year against 47 per year pre-crisis). Patterns of AAA among countries in the three fiscal stress zones were relatively balanced before the crisis, with somewhat higher AAA deliveries in countries with low fiscal stress. However, during the crisis, deliveries of public finance-related AAA to countries in the high fiscal stress zone were stepped up, compared with those for countries in the low and moderate fiscal stress zones.

TABLE 5.3 Public Finance-Related AAA with Fiscal Management Content in Countries with Crisis Response DPOs

Categorization of fiscal position	Pre-crisis: FY05–08					During crisis: FY09–10			
	Number of countries	PER	CEM and DPR	Other public finance	Total	PER	CEM and DPR	Other public finance	Total
Low	10	8	11	24	43	5	4	14	23
Moderate	25	26	22	46	94	10	15	20	45
High	13	13	4	34	51	8	3	23	34
Total	48	47	37	104	188	23	22	57	102

Source: IEG, based on World Bank data.

Note: CEM = Country Economic Memorandum; DPR = Development Policy Review; PER = Public Expenditure Review.

Although in many countries the Bank’s knowledge base in public finance was sufficient to rapidly build a program tailored to country needs, knowledge gaps existed where the Bank’s pre-crisis engagement had waned. An adequate knowledge base existed where the Bank had maintained a strong partnership before the crisis, including through the full array of Bank lending and nonlending services. Georgia is an example where the Bank was actively involved in helping carry out key reforms, with the establishment of a credible fiscal framework, a drastic reduction in corruption, and an improvement in public services. In some countries, however, core diagnostic work in public finance was relatively outdated at the outbreak of the crisis. Examples include El Salvador; Jamaica; Vietnam, where the last pre-crisis Public Expenditure Review (PER) was completed in 2004; and Peru, with a PER dating back to 2003. No recent PER was available in Pakistan. Moreover, in countries with dwindling lending volumes over time, diagnostic work lagged. Examples include Poland and Mexico, where the last pre-crisis PERs were completed in 2003 and 2004, respectively. In Brazil, the Bank’s diagnostic work in public expenditure policy was concentrated at the subnational level.

When the Bank’s knowledge base was relatively weak, the Bank was not well prepared to lay out actionable and forward-looking policy programs in fiscal management to address the crisis. The absence of crisis-related content in fiscal management in several of the DPOs that were prepared to address the impact of the crisis, despite the sizeable increase in commitment amounts, testifies to the weak analytical base of some of these operations. The analytical underpinnings of the DPOs in Mexico and Romania are examples of such knowledge gaps (appendix E, section 4). To fill existing

knowledge gaps, the Bank was often able to conduct analytical work in a very short time frame, as, for example, in Serbia, where a PER was initiated in the fall of 2008 and finalized in June 2009, providing needed underpinnings to a new programmatic series of public expenditure DPOs.

The analytical base in public financial management was generally adequate. Public financial management reforms supported by crisis response DPLs were typically part of long-standing policy dialogue and were underpinned by adequate diagnostic work (PERs and Financial Accountability reviews, Country Procurement Assessment Reports, and specific technical assistance). Full diagnostic public financial management work was conducted in 8 of the 16 focus countries for this evaluation (Georgia, Ghana, Indonesia, Jamaica, Jordan, Poland, Serbia, and Ukraine), and partial analytical work was available in 6 countries (Costa Rica, El Salvador, Mexico, Nigeria, Peru, and Vietnam). Analytical work in public financial management was lacking in Romania because of a retreating overall pre-crisis engagement with the Bank. Diagnostic work on tax administration and tax policy was conducted in Uruguay, although part of it was not publicly available.

Maintaining a strong knowledge base in public finance, through a steady flow of diagnostic work, is a condition for effective support, especially in countries with fiscal positions vulnerable to a global crisis. To ensure strong analytical engagement, sufficient resources need to be directed to AAA regardless of lending volumes. To that effect, some thought might be given to making qualification to a countercyclical support facility contingent on diagnostic work in public finance conducted on a regular basis.

6

Support to Social Protection during the Global Financial Crisis

The financial crisis threatened to erase some of the gains in poverty reduction from prior years. Coming on the heels of the food and fuel crisis, the financial crisis had a significant effect on the immediate well-being of households. Many poor households had already depleted their limited coping means during the food and fuel crisis and were left with few assets to cope with the financial crisis. Chen and Ravallion (2009) estimate that an additional 53 million people fell into poverty in 2009 because of the financial crisis, as the demand for labor at home and abroad declined, jobs disappeared, earnings fell, and remittances shrank.¹

Although macroeconomic recovery has been relatively quick, the social impact of the financial crisis will almost certainly have lasting effects on the welfare of households: longer and deeper bouts of poverty, a weaker asset base, lower risk and lower return production and consumption choices, and reduced use of basic social services. The social impacts of the financial crisis were primarily felt through contractions in the labor market caused by worsening overall economic conditions, declining remittances from workers in other crisis-affected countries, and lower government spending on key social programs.

Compared with the food and fuel price crises, the financial crisis had stronger formal sector channels and affected formal labor market workers. Formal sector workers are generally not part of the poorest segments of the population;² nevertheless, the crisis had negative effects on the well-being of their households. In contrast, the poor—despite being less directly affected by the crisis—are more vulnerable to shocks and may suffer irreversible losses as a consequence.

The Bank's social protection lending and nonlending services increased considerably during the global crisis. Social protection³ mechanisms such as social safety nets, active labor market programs, and social insurance and pensions can mitigate the social and economic impact of systemic shock such as the financial crisis. They cushion drops in income to support living standards of households, help main-

tain human capital investments and preserve assets; and may facilitate job search and opportunity. Bank lending for social protection increased fourfold over pre-crisis levels. The majority of the scaled-up support for social protection went to social safety nets (by definition targeted to the poor and vulnerable). However, lending for active and passive labor market programs also increased significantly.

IEG recently completed a review of the Bank's support to social safety nets over the past decade (IEG 2011b). It showed that most countries, both middle-income and low-income countries, found themselves unprepared to respond to the triple food, fuel, and financial crisis. However, since the triple crisis started, the Bank has begun to support more flexible safety nets for responding to systemic shocks. IEG concludes that building capacity during stable times will help countries protect their poor and vulnerable people during shocks. This chapter draws on the sources and findings generated by the evaluation of safety nets. Most importantly, it draws on findings from a survey of Bank staff with regard to country preparedness to the food, fuel, and financial crises.

In addition, this chapter specifically looks at a broader spectrum of social protection policy interventions (outside poverty-targeted safety nets) and how they were used in responding to the crisis impacts from both formal and informal channels and affected both the poor and the near-poor (or new poor). To do this, IEG uses a new set of sources.

It reviews the Bank's portfolio of crisis-related social protection projects, examines 16 country case studies on the unique experience of countries dealing with the financial crisis, and analyzes the use of Rapid Social Response (RSR) trust funds in a sample of IDA countries.⁴ Because the Europe and Central Asia and Latin America and the Caribbean Regions were most affected by the crisis, they are given particular attention. See appendix F for details on the methodology and sources.

Specifically, this chapter has the following objectives: First, it reviews the effects of the crisis on affected households; second, it analyzes how countries used their social protection systems to protect households; and third, it reviews the Bank's crisis-specific lending and nonlending support to assess the extent to which it was aligned with the channels of crisis impact and existing social protection programs to help reduce some of the negative effects of the crisis.

Overall Findings

In this evaluation IEG shows that Bank responses during the financial crisis were partially relevant for raising the effectiveness of social protection, but the Bank was limited by the inadequacy of effective and flexible country programs that protect workers whose incomes were reduced during the crisis. Interventions with an immediate crisis focus included providing well-functioning programs with technical assistance as well as additional resources for expansion and calibration. However, given the limited availability of real-time crisis data, many projects aiming to address the impacts of the financial crisis could not explicitly focus on crisis-affected vulnerable people but rather had to use instruments targeted to all poor and vulnerable households. For this reason, even though it is still too early to determine, the impact of Bank support for mitigating the impact of the crisis may not be fully known. In countries with high informality, although targeted transfers may absorb some new poor, there is a need for more flexible risk management programs and labor market reform. That said, although momentum has yet to catch on in many countries, the crisis provided an opportunity for the Bank to start to move ahead on the long-term agenda of building social protection systems.

The Effects of the Financial Crisis on the Social and Economic Well-Being of Households

Due to the financial crisis most countries experienced setbacks in poverty reduction and human capital outcomes, with the most serious impacts in middle-income countries in Europe and Central Asia and Latin America and the

Caribbean. Poverty increased by as much as 4–6 percentage points in Guatemala, Latvia, and Moldova in 2009 over pre-crisis levels. Although poverty continued to fall in some countries, the aggregate numbers hide the impact on specific groups. Analysis finds that young, male workers comprised the group most affected (World Bank 2011b). There are also indications that investment in human capital dropped⁵ and, as government revenues declined, fiscal space for social protection and other pro-poor social services shrank at a time when demand for social protection was increasing.⁶ In addition, some countries had to deal with simultaneous exogenous shocks, mainly climate related (as in Moldova, Guatemala, and Pakistan).

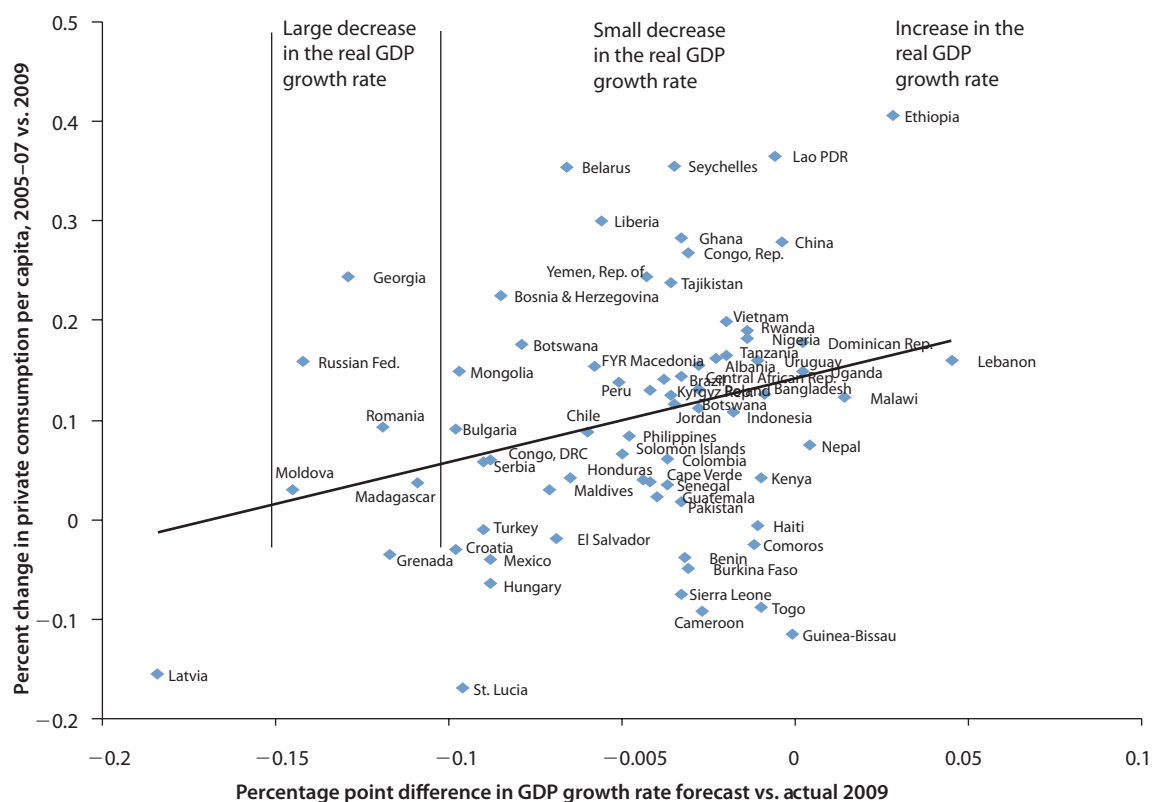
Channels through Which Households Were Affected

The poverty and social impacts of the crisis on households depends on the severity of the macroeconomic shock on a country's economy and the channels through which the crisis is transmitted to households. The severity of the macroeconomic shock as it affects households can be measured by variables such as the percentage point change in the GDP growth rate and the percent change in private consumption per capita before and during the crisis.⁷ Figure 6.1 shows an index of country crisis severity using the average rank of these two variables. Furthermore, the World Bank (2011b) identifies four transmission channels of the economic crisis on household well-being: credit market shocks through plummeting financial markets; income and employment shocks through the weakened labor market; relative price changes through product markets; and education, health, and social protection shocks through reduced government services. These channels essentially led to three types of effects on households: contractions in jobs and earnings; reduced household incomes from remittances and nonlabor incomes; and reduced access to basic social services, especially among the poor.

Based on the index of the severity of the crisis and the typology of crisis household effects, countries can be classified by groups. IEG applied this typology to the 83 countries in the Bank's social protection lending portfolio; table 6.1 lists the 16 case study countries in a matrix format. The actual impact on an individual household also depends on the households' own coping mechanisms—such as drawdown of assets and family relationships—and the effectiveness of available social protection programs in the country.

Distinguishing between contractions in formal and informal incomes matters because the social protection programs that can be used to mitigate these impacts are different. Among the countries studied in depth that were severely hit by the

FIGURE 6.1 Measures of Crisis Severity



Source: IMF 2010e.

Note: GDP = gross domestic product.

crisis, Bulgaria, El Salvador, Latvia, Mexico, and Moldova suffered contractions in the formal labor market through job loss and reductions in wages and earnings. At the same time, contractions in informal incomes (from the informal market and from remittances) were observed in all but Latvia. Informal income contractions were the dominant channels in Guatemala and Jamaica, for example. The different programs

that were used to mitigate formal and informal impacts are discussed in the next section.

Because the financial crisis was mainly channeled through labor markets and remittances, it had important impacts on the near and transient poor in addition to those already poor and vulnerable (compared, for example, with price hikes in

TABLE 6.1 Matrix of Crisis Impacts on Households

Crisis severity	Contractions in formal labor market jobs and earnings	Contractions in informal incomes and remittances	Reduced access to social services	No social impact
High	Bulgaria, Latvia, Moldova, El Salvador, Mexico	Bulgaria, Moldova, El Salvador, Jamaica, Mexico	Bulgaria, Latvia, Moldova, Jamaica	
Moderate/low	Bosnia and Herzegovina, Poland, Brazil	Albania, Bosnia and Herzegovina, Poland, Brazil, Guatemala, ^a Philippines, Pakistan, Yemen, Rep. of	Bosnia and Herzegovina, Philippines	Uruguay, Indonesia

Sources: Authors' calculations using data from case studies; IMF 2010e.

Note: Crisis severity is calculated by taking the rank average of the percentage point change in GDP growth rates and the percent change in private consumption per capita before and during the crisis. A country is classified as high severity if it is ranked in the top third of countries worldwide for which data are available.

a. Guatemala falls right on the border of the two groups of crisis severity.

staple foods, which directly hurt the poor). In particular, layoffs and wage reductions in the formal market do not generally affect the poor, as they are not a great part of the formal labor market. Also, remittance incomes may not benefit the poorest segment of the population.⁸ A recent study by the World Bank (2011a) finds that the negative impacts on workers in middle-income countries mainly came from a slowdown in earnings and less from reductions in employment, as workers had to work fewer hours with less pay and shifted out of industry into less formal employment. Young, male, and inexperienced workers were most affected by the labor market contractions (World Bank 2011b).

Differences in Effects by Region

In many Europe and Central Asia and transition countries, severe GDP contraction, accompanied by rising unemployment and stagnant wages, may have pushed some 10 million more people into poverty relative to pre-crisis projections (World Bank 2011b). Among the hardest hit were Mongolia and Latvia, where unemployment increased from 2.8 and 7.8 percent, respectively, in 2008 to 11.6 and close to 20 percent in 2010 (appendix F). A decline in remittances and fiscal constraints on social spending aggravated the effects from negative labor market shocks as witnessed in Bosnia and Herzegovina and Moldova. In Moldova, where a significant number of migrants seek work in Russia, remittance flows fell by 38 percent in 2009.

In Latin America and the Caribbean, the crisis was milder and countries managed to protect social spending better. The high informality in the labor market acted somewhat as a buffer for formal unemployment (Ferreira and Schady 2009). Still, countries in Central America and the Caribbean in particular suffered economic contractions and increases in poverty because of the strong dependence on remittances (El Salvador,⁹ Jamaica, and Mexico; table 6.1) and exports to the United States.¹⁰ Moreover, poor households had already been affected by rising food and energy prices in 2007 and 2008. In both Regions, household behavior was altered, especially in poor households, as they had to adjust food intake, cut back on education and health spending, draw down assets, and engage in lower risk-lower return activities. Analysis shows that deterioration of human capital in bad times is worse than improvements made in good times (World Bank 2010a).

Other countries, mainly outside Europe and Central Asia and Central America and the Caribbean, were more protected from external shocks and suffered fewer social impacts from the crisis. For instance, Indonesia and Uruguay proved to be exceptionally resilient to the crisis in terms of household impacts.¹¹

Country Crisis Preparedness for Protecting Households from Shocks

To what extent were countries' social protection systems prepared to respond to the global recession?¹² To effectively protect households from suffering negative consequences, it is important to have funding to enable the needed scaling up of programs (discussed in chapter 5). From a social protection point of view, two things are needed to be ready to respond to crisis: first, knowledge and data on which population groups are being affected by the shocks (direct and indirect) and, second, available social protection programs that are able to address the particular crisis impacts on the affected people.

In general, crisis-affected countries were not fully prepared to respond to the social impacts of the crisis. A survey of Bank staff undertaken by the recent IEG evaluation of safety nets found that countries generally were not well prepared to protect the poor and vulnerable against the effects of the food, fuel, and financial crises.¹³ Social protection programs are often not well established in low-income countries, and data on poverty and labor market outcome are weak. Nonetheless, findings both from the staff survey and from 16 new case studies show that even many middle-income countries were not adequately positioned to respond to the needs of crisis-affected households, despite having fairly well-developed social protection systems.¹⁴

Data Availability

Regular data on changes in household well-being and labor market adjustments were broadly available in Europe and Central Asia, but less so in the Latin America and the Caribbean Region. Knowing who the target population is, the channels through which they are affected, and the available household coping mechanisms is crucial to adequately tailor program design. These data are generally a combination of administrative and national survey data, including household spending and labor market outcomes. Case studies show that in Europe and Central Asia and in some Latin America and the Caribbean countries, such information was available and formed the basis for targeting affected households and scaling up of crisis response programs.

However, regular consumption and labor market data are scarce in many Latin America and the Caribbean countries. For instance, El Salvador and the Dominican Republic do not have high frequency (monthly or quarterly) labor market data, only annual or biannual data. In some instances, administrative data from social protection programs provide information on changes in well-being. In Jamaica, for example, the crisis impact on beneficiaries of conditional

cash transfers (CCTs) could be estimated by looking at bi-monthly changes in compliance rates. In response to the drop in school attendance as the crisis developed, the Jamaican government introduced an unconditional tier of the cash transfer program for the extreme poor, who could not afford to continue to keep their children in school. Box 6.1 showcases Indonesia, one of the few countries that launched a major crisis survey at the onset of the global crisis. Because country data on the severity of the crisis and information on the extent that households were affected were not available at the onset of the crisis, the Bank and countries had to make decisions on how to respond based on limited information.

Availability of Appropriate Social Protection Programs

When the formal labor market contracts, unemployment insurance may be appropriate to automatically cover those who lose their jobs and incomes. Severance also provides a cushion for laid-off workers, while wage subsidies can be enacted to reduce layoffs and in some instances encourage new hires. Early pensions and disability programs have also been used.¹⁵ These programs are generally referred to as “automatic stabilizers.” When such programs are not available, for instance, for informal sector workers and young workers without formal protection by labor laws, social assistance programs and noncontributory insurance may help provide income support. Temporary public works schemes can be put into place on relatively short notice. Targeted social assistance schemes provide a safety net of last resort for those who are ineligible for or unable to participate in other schemes linked to changes in labor market earnings. As a subset of social assistance, CCTs may prevent crisis-affected households from cutting back on investments in their children and their social well-being, as do health care and school fee waivers.

In Europe and Central Asia, the programs that could be used to respond to the crisis were generally small in contrast to the scope of the crisis. Case studies show that social protection systems were often not well coordinated (numerous categorically targeted programs coexisted with means-tested schemes) and modest in scope. The fragmentation of the systems often meant that they had limited impact on beneficiary well-being. It is also difficult (and not necessarily desirable) for countries to have in place many social programs. For instance, in Bosnia and Herzegovina, the average transfer amounts to only 3.2 percent of beneficiary expenditures. In terms of coverage, fewer than half of the people in the lowest two quintiles were recipients of social assistance, and they received less than 40 percent of the total value of social assistance.

Although unemployment insurance schemes are common in Europe and Central Asia and among the first benefits to reach crisis-affected households, eligibility was tight, coverage low, and benefit periods short (World Bank 2011b; Freije-Rodríguez and Murrugarra 2009). On average, fewer than one-third of unemployed people were covered by unemployment insurance in Europe and Central Asia (World Bank 2011b). However, these programs tend to mainly protect against job loss and may not reach workers who suffered reductions in earnings without being formally unemployed.¹⁶ A large share of informal and self-employed workers, with a high concentration of young workers, could not benefit from support unless they were eligible for benefits targeted to the poor. Social assistance programs only reach a small percent of the population (for example, in Romania and Latvia).¹⁷ In contrast, categorical programs with no direct bearing on temporary shocks (for example, pension schemes and veterans’ benefits in Bosnia and Herzegovina) have broad coverage and are fiscally expensive.¹⁸

BOX 6.1 INDONESIA: MONITORING CRISIS IMPACTS ON AFFECTED GROUPS

Indonesia was one of the few countries that launched a major crisis survey at the onset of the global financial crisis—a lesson learned from the Asia financial crisis a decade earlier. Starting in 2009, with the assistance of AusAID, a three-wave panel survey was conducted, using complementary data from the biannual labor force survey. The survey aimed to understand the crisis transmission channels and household coping mechanisms using small sample statistical techniques on 30 households in each district. The results indicate that the crisis impacts on households in Indonesia were generally low, and no additional social protection actions needed to be taken.

Additionally, the labor force and national socioeconomic household surveys became available quarterly. This increase in frequency of the data on welfare and poverty will enable better crisis preparedness in the future. The government is exploring establishing a permanent vulnerability and shock monitoring and response system based in part on these data.

Sources: Case study and staff interviews.

Flexible risk-management programs are still weak in countries with high informality. In many countries in Latin America and the Caribbean, for example, unemployment insurance is not accessible to many people and work schemes were rare.¹⁹ Compared with Europe and Central Asia, few countries in Latin America and the Caribbean (Brazil, Chile, Colombia, and Mexico) were able to use labor market instruments during the crisis. In Mexico and El Salvador, where part of the impact came through the formal labor market, unemployment benefits do not exist. When they do exist, they are potentially regressive and may benefit only better-off formal sector workers. Of the Latin America and the Caribbean countries reviewed for the evaluation, only in Mexico and St. Lucia were new large-scale temporary employment and income support programs started (supported by the Bank) in connection with the crisis. These programs, if implemented well, can be useful crisis mitigation instruments when unemployment benefits only cover a small share of the population and social assistance program are not sufficiently adaptable to take up new entrants.

Instead, analysis shows that targeted safety nets were the main crisis response programs in Latin America and the Caribbean. The staff survey shows that the most common programs to be scaled up in response to the crisis were cash transfers (52 percent of respondents). Commonly, informal sector workers had to fall back on available CCTs, which have greatly been expanded in many countries in the Region

since the macroeconomic crisis in the late 1990s. Although scaling up poverty-targeted safety nets is an integral part of crisis response, these programs are mainly geared toward the chronically poor families, whereas many of those affected by the crisis were households falling into temporary poverty (for instance, in Brazil, Guatemala, Jamaica, and Mexico).²⁰ Also, these cash transfer programs often lack the institutional flexibility in intake processes and management information systems to quickly absorb households that may have poverty characteristics different from the chronically poor, whom the programs conventionally serve. Moreover, they do not include help for workers to return to productive employment.

In both Europe and Central Asia and Latin America and the Caribbean, many countries undertook active labor market programs, especially employment services, skills training, and upgrading during the crisis. But these programs often lacked sufficient links to labor market demands, and their outcomes—especially for protecting against shocks—can be uncertain (see below). However, the best prepared countries were able to quickly establish skills training and to upgrade their programs targeted at the most at-risk workers, especially unskilled workers and youth. Some governments introduced wage subsidies (as in Poland, Chile) or altered minimum wage (as in Bolivia, Brazil, and Honduras).²¹ Box 6.2 provides details of crisis preparedness in three different middle-income countries.

BOX 6.2 THREE LEVELS OF COUNTRY PREPAREDNESS

Well prepared: *Bulgaria's* social protection system consists of cash transfers, social insurance, and active labor market programs targeted to low-skilled workers. The system is well-targeted and financially sustainable. Safety nets are well targeted and well financed, covering some 70 percent of the poorest two deciles (the remainder are covered under unemployment benefit and social pension schemes). In response to the crisis, the government raised benefit levels, lowered eligibility thresholds, and expanded the menu of active labor market programs.

Moderately prepared: Until recently, *Guatemala's* social protection system consisted of a large number of small, uncoordinated programs. With persistent high poverty and inequality and numerous economic shocks, in 2008 the government's strategy shifted to a multisectoral approach to tackling poverty. At the core of the strategy was a CCT targeting extremely poor households. In less than three years the program has reached about 30 percent of the population, mainly in rural areas. But except for the CCT and other programs targeted to children, social assistance is regressive, with only 8 percent going to the bottom two quintiles. Benefits cover only 20 percent of the poor and extreme poor. The vast majority of Guatemalans (85 percent) are uninsured.

Poorly prepared: *Bosnia and Herzegovina* was particularly poorly prepared when the crisis hit. The social protection system covers some 52 percent of the population. However, the majority of the resources are dominated by a merit-based veterans' benefit system, impeding the development of needs-based programs and hence leaving little room to respond to systemic shocks. Although the veterans' benefit system may include some legitimately poor households, it also allows potentially large errors of inclusion of non-poor households and cannot flexibly absorb non-veteran poor.

Sources: IEG case studies.

In countries that were better prepared, program complementarity, adaptability, and service level efficiency played an important role in program responsiveness. Albania, Bulgaria, and Uruguay are examples of relatively well-prepared countries. All have broad and complementary social protection schemes: formal sector contributory schemes, safety nets including cash transfers (conditional in the case of Uruguay) relatively well targeted to the poor, and complementary categorical benefits. New applicants were reached through networks of social offices, specifically through social workers, who play an important role in identifying need, providing information and guidance, and applying rules of program eligibility.

Alignment of the Bank's Response to Country Needs

To mitigate immediate crisis impacts on households, the Bank needs to help countries provide timely and targeted support to affected groups. The type of support should depend on the severity of the crisis in the country, the transmission channels (for example, contractions in formal jobs and earnings, contractions in informal incomes and remittances, and reductions in government social spending) through which households are affected, and the extent to which country programs are able to respond. Where existing country programs are not ready to respond, the Bank can help put in place new or temporary programs, given country demand, resources, and timing. Allocating Bank support to best serve countries during the financial crisis requires focusing on immediate crisis needs while also balancing longer-term reform.

Allocation of Bank Support by Crisis Severity

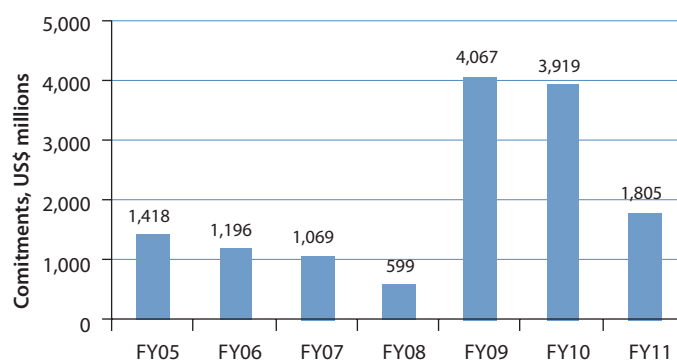
Bank lending for social protection increased dramatically starting in FY09 (figure 6.2) and continues to be higher than

pre-crisis levels. In FY09 and the first half of FY10 alone, the sharpest increase in overall Bank lending was in social protection, with close to a fourfold increase over pre-crisis levels. Part of this increase was caused by the continued needs after the 2007–08 food crisis. A total of 136 projects²² including support to social protection, with commitments of \$9.8 billion, were approved for 83 countries between FY09 and the first six months of FY11.²³ About half of the operations had high or medium social protection thematic content.²⁴ Non-lending services, especially technical assistance, have also increased (IEG 2011b). In 2011, the Bank produced a considerable amount of analytical work related to the impacts of the crisis on households and the effectiveness of existing social protection programs (for example, World Bank 2011a, 2011b; Robalino, Newhouse, and Rother, forthcoming).

Lending was concentrated to countries in Latin America and the Caribbean and Europe and Central Asia, where the crisis was the most direct, but only a small share went to countries with severe crisis impacts. The bulk of the lending went to middle-income countries (72 percent of projects and 85 percent of lending), especially a handful of countries (appendix table G.1). More than three-quarters of the \$9.8 billion loaned in FY09–11 went to countries in Latin America and the Caribbean and Europe and Central Asia (figure 6.3, left panel).

The lending bias to large middle-income countries is largely a result of larger country demand and absorptive capacity in these countries, but it also reflects the concentration of the severity of the crisis in Europe and Central Asia and Latin America and the Caribbean countries. Forty-seven percent²⁵ of the social protection support went to countries severely affected by the crisis (44 loans averaging \$105 million; table 6.2 and figure 6.3, right panel).²⁶ In contrast, 53 percent of the social protection support went to countries with less severe

FIGURE 6.2 Commitments for Social Protection Lending by Approval Year (US\$ millions)



Source: IEG portfolio review.

Note: FY11 includes only projects approved during the first six months (until December 31, 2010).

TABLE 6.2 Social Protection Operations by Crisis Severity

Crisis severity	Number of countries	Number of operations	Committed amount (US\$ million)	Percent of commitments
High	26	44	4,604	47
Moderate/low	57	92	5,185	53
Total	83	136	9,789	100

Source: IEG portfolio review.

Note: Covers FY09–11. FY11 includes only projects approved during the first six months (until December 31, 2010).

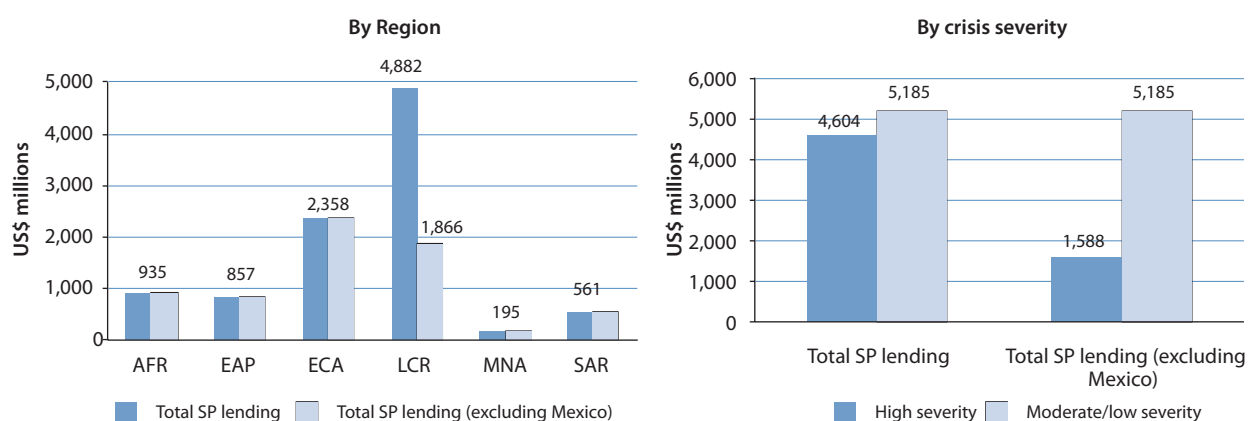
crisis impacts (92 operations averaging \$56 million). However, this trend is completely driven by Mexico, by far the largest borrower, with 31 percent of total social protection commitments over four operations (see box 6.3 for details on the Bank’s lending to Mexico). The large amount of lending to Mexico is a reflection of country demand, the existence of mature social protection programs, and the capacity of the government to absorb the funds. Removing Mexico from the analysis, only 23 percent of social protection lending went to countries severely affected by the crisis.²⁷ Likewise, the share of lending that went to Europe and Central Asia and Latin America and the Caribbean drops to 62 percent.

The majority of the Bank’s support to social protection was aimed at mitigating the effects of the financial crisis on household welfare (\$8 billion and 70 percent of projects). In many countries, the Bank’s response to the crisis is part of the long-term engagement in social protection. A third of Bank social protection support during the crisis period was intended to address other issues (other crises or long-term objectives). Following IEG’s framework of countries’ crisis severity, 78 percent of countries that were highly impacted

by the crisis received support from the Bank aimed at mitigating the effects of the crisis (table 6.3). In contrast, 66 percent of countries that were considered to have a moderate to low crisis impact also received support from the Bank with the objectives to mitigate the crisis effects.

Immediate crisis response actions consisted of the provision of quick technical assistance and scaled-up financing. Case studies show that much of the Bank’s immediate crisis support took the form of DPOs, often linked to maintaining spending on social protection and transferring technical advice. DPOs represent 40 percent of the operations and a similar proportion of commitments. Technical advice took the form of efficiency improvements to countries’ existing programs, their scaling up to accommodate additional demand generated by the crisis, and the introduction of programs to facilitate worker re-entry into the market. Budget support through DPOs allowed countries to maintain social protection payments to the poor and vulnerable in a situation where the macro environment would otherwise have necessitated scaled-back spending. This is the case in Bulgaria, Brazil, Poland, and Uruguay.

FIGURE 6.3 Commitments to Social Protection by Severity of Crisis and Region (US\$ millions)



Source: IEG portfolio review.

Note: SP = Social Protection. **Regions:** AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

BOX 6.3 MEXICO'S RESPONSE TO THE GLOBAL FINANCIAL CRISIS

Mexico was by far the largest borrower for social protection during the global crisis, with \$3.0 billion in loans. The Mexican economy was hit through contractions in income and employment and a shortfall in fiscal revenue. The number of poor people was expected to increase to 3.6 million.

Resources were channeled through well-known programs that have shown positive results. Ninety percent of commitments went to programs targeted to the structural poor (the *Oportunidades* CCT and *Seguro Popular* health insurance for the poor). The other programs were much smaller and targeted to the newly unemployed (the Temporary Employment Program and passive labor market policies). The package of social protection support by the Bank was a continuation of medium-term assistance.

It is too early to assess the impact of the Bank responses on the population. However, the expansion of *Oportunidades*, together with the expansion of a nutrition program by a total of 1 million beneficiaries (planned before the crisis), potentially reduced the depth of poverty and the poverty headcount by 0.4 and 1.8 percentage points, respectively. Nevertheless, although safety nets have a critical role in mitigating the effects of shocks on poor households, they can at best provide a partial and short-term solution. More efforts to establish social insurance to protect workers from suffering income losses without distorting incentives for formal employment are needed.

Sources: IEG case study; World Bank 2010b.

Although the monetary value of the DPO was often modest compared with the support of other donors,²⁸ DPOs were complementary and effective because they were put in place quickly, allowing timely provision of technical knowledge in the sector that was highly valued by client countries and other partners, as, for example, in Latvia. In general, Bank DPOs were often accompanied by policy notes highlighting the main issues in social protection and funding from other partners. The Bank's timely technical advice on social protection during the crisis clearly added value.

Trust funds and analytical and knowledge work in low-income countries attempted to counterbalance the lending bias toward middle-income countries. Trust funds²⁹ allowed a quick and flexible response to the crisis, especially in countries with major borrowing constraints and those affected by the food crisis shocks. The RSR trust funds were the main vehicle and were aimed at long-term building of systems and institutions in IDA countries. In 41 countries,

26 of which were low-income countries, the Bank used trust funds to support the countries' safety net programs during the crises.³⁰ A total of \$200 million was made available, of which \$76 million was provided to African countries. The trust funds led to Bank engagement in 15 new countries, 9 of them in Africa, where there was no previous lending or technical assistance on safety nets.³¹

Moreover, the Bank's new strategy on social protection, as well as its knowledge sharing, is focusing more on low-income countries. One of the thematic areas of the new strategy (under development) is strengthening the focus on low-income countries and fragile states. The focus is on building basic social protection systems in client countries using simple, innovative approaches and building rigorous evidence of what works in low-income and fragile settings. Also, the two global safety net knowledge events (see endnote) in 2010 and 2011 focused on low-income countries.³² This increased focus on low-income countries is a promising development.

TABLE 6.3 Countries' Crisis Severity and Bank Project Objectives

Crisis severity	Objective: Addressing financial crisis effects on households (%)	Objective: Not financial crisis related (%)
High	78	22
Moderate/low	66	34

Source: IEG portfolio review.

Note: Crisis severity is calculated by taking the rank average of the percentage point change in GDP growth rates and the percent change in private consumption per capita before and during the crisis. A country is classified as high severity if it is ranked in the top third of countries worldwide for which data are available. The distribution is not sensitive to changes in the severity cut-off threshold.

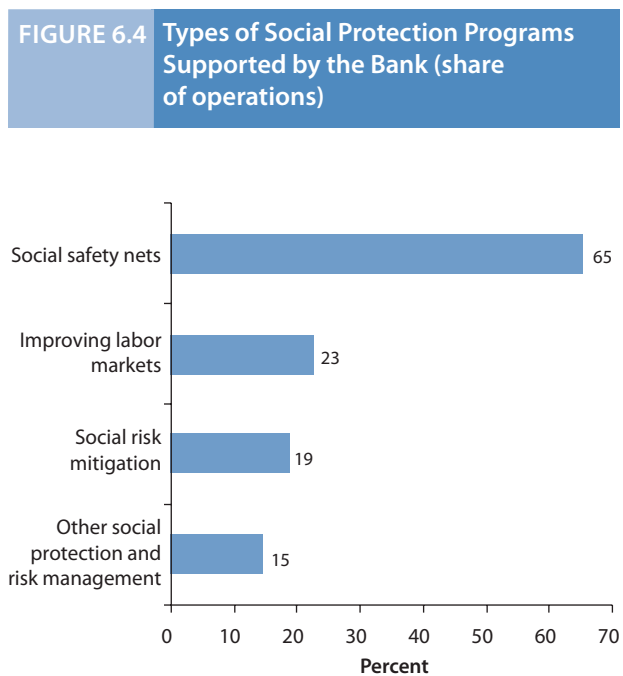
Alignment by Channels of Crisis Impact: Short-Term Responses

IEG reviewed the lending portfolio and used case studies to map the crisis transmission channels in each country with the type of support provided by the Bank to assess if the Bank's support was targeted to the specific crisis needs.³³ In sum, the Bank's crisis objectives were partially aligned with the main types of household impacts.³⁴ The limited availability of real-time data and the weakness of country programs that are automatically available or can quickly be put in place or adjusted to protect crisis-affected workers limited the Bank's effectiveness. The immediacy and severity of the crisis did not allow for the development of new and more efficient systems that were better suited to the nature of the transmission channels of the global crisis. In many countries, the Bank's response to the crisis needs to be seen in the context of the long-term engagement of the Bank in social protection in the country. Overall, as well as during the crisis, the Bank's emphasis is on strengthening safety nets that aim to increase the resilience of chronically poor households and break the cycle of poverty.

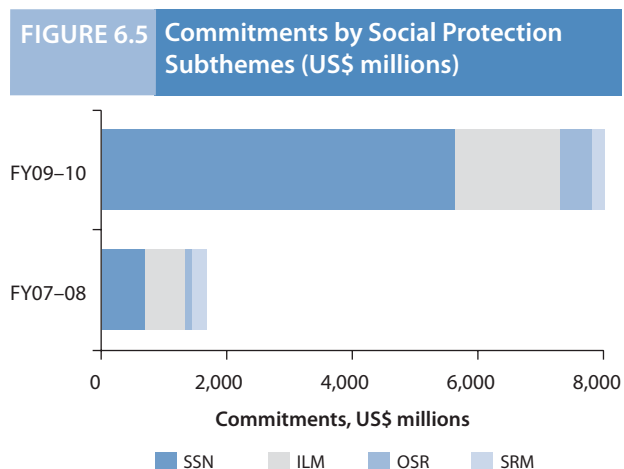
Lending to poverty-targeted safety nets accounted for the largest increase, although the focus on labor markets in high crisis countries was strong. Many middle-income countries responded to the crisis through changes in labor market-related programs (support for firms to retain workers, active labor market services, unemployment benefits, and the like). Bank lending to these was relatively small and was largely domi-

nated by social safety nets, which were a theme in 65 percent of operations and 59 percent of lending during FY09–11 (figure 6.4).³⁵ When the crisis hit, safety nets lending increased by more than 700 percent³⁶ and comprised the largest share of the increase in lending (78 percent; figure 6.5). In comparison, lending to other social protection functions that are less targeted to poor households also increased, but by much less. Lending to improve the functioning of labor markets and to other social protection and risk management increased by 160 and 100 percent, respectively. Consistent with the labor market intensity of the impacts on households, lending to countries with high crisis severity was characterized more by labor market interventions than lending to other countries. Among high crisis countries, 33 percent of operations addressed labor market issues.³⁷ That figure for countries with less severe crisis was 22 percent. A breakdown of projects aiming to improve labor markets is available in appendix table G.2.

To a large extent, the focus on safety nets was due to the Bank's support to the continuous scaling up of CCTs, mainly in Latin America and the Caribbean (El Salvador, Guatemala, Jamaica, Mexico, and Moldova) to reach the structurally and chronically poor. In this Region especially, the Bank's response to the crisis needs to be seen in the context of its long-term engagement in social protection in the country. The scaling up of CCTs coincided with the crisis, and CCTs were important tools for protecting the poor from adverse effects. In addition, they could, to some extent, absorb informal workers who fell into temporary poverty because of



Source: IEG portfolio review.



Source: IEG portfolio review.
 Note: ILM = improving labor markets; OSR = other social protection and risk management; SRM = social risk mitigation; SSN = social safety nets. To compare equivalent time periods, only two years of crisis (FY09–10) are analyzed, ignoring any lending in FY11.

the crisis, but it was not a thought-out crisis response (for example, Guatemala, Jamaica, Mexico). But as noted earlier, permanent safety net programs, such as cash transfers, are generally not flexible enough to quickly protect near-poor crisis-affected individuals who may not be eligible for poverty-targeted benefits. Using social assistance programs as the only instruments for crisis response may also raise fiscal sustainability issues, because such programs do not automatically scale down in stable times. The Bank has, however, invested in analytical work and technical assistance in Latin America and the Caribbean to better understand the effects of the crisis and the role and designs of existing social protection programs in mitigating the impacts.

To mitigate labor market contractions, adequate support was provided to some countries, but small or nonexistent country programs limited its reach. When the transmission channel was formal unemployment and earnings contraction, the Bank was able to provide adequate support in some countries (for example, Bulgaria, Latvia, Mexico, Poland). When unemployment benefits were effectively scaled up (in Bulgaria, Latvia, and Romania), they were quick and flexible for responding to the crisis. Duration of benefit provision was extended and eligibility was relaxed. In other countries that also suffered large increases in unemployment and wages (Bosnia and Herzegovina, El Salvador, and Moldova), the Bank did not focus its attention on instruments that target formal sector workers. As noted, instruments such as unemployment insurance were often very small in coverage, depending on the level of formality of the economy. Social insurance for informal sector workers is also largely absent in many countries, partially because of lack of country familiarity and capacity. This hindered the extent to which the Bank could effectively support some crisis-affected groups. However, the Bank is pursuing dialogue on linking labor markets to social protection in several countries, especially in Latin America and the Caribbean.

Bulgaria provides an example of targeted and timely Bank interventions complementing government efforts to increase the responsiveness of its programs. A dramatic drop in GDP and increased unemployment led to contractions in consumption, driving some into poverty and deepening poverty among those who were already poor. The government increased public spending on social programs, expanded coverage and raised benefits, expanded wage subsidies, and broadened the menu of active labor market programs. The Bank, which had an ongoing strategic relationship with Bulgaria in the social protection sector, provided the analytical underpinnings through policy analysis, budget support through a DPO, and further AAA for crisis monitoring of household coping strategies and the impact on welfare and human development outcomes.

However, the Bank helped scale up or launch labor-intensive public works for addressing urgent crisis needs for both formal and informal sector workers (as in Armenia, El Salvador, Latvia, Mexico, Moldova, and the Republic of Yemen).³⁸ The Latvia public works scheme (box 6.4) is a typical example of a government-operated financial crisis response works scheme. At the same time, budget support helped fund the costs for the relaxation of eligibility criteria and expansion of payout period of unemployment benefits. Box 6.5 provides details on the Bank's short-term crisis responses in terms of supporting existing country programs or put in place new ones, such as public works. Although such initiatives are an opportunistic and useful way of taking advantage of the crisis, they are unlikely to have any immediate effect, unless programs are "shovel ready": public works schemes were most likely to address immediate needs.

Skills training programs, primarily catering to the hardest-hit workers (the young, the low-income, and the unskilled), were also launched on relatively short notice, sometimes

BOX 6.4 LATVIA'S NEW PUBLIC WORKS PROGRAM

With a 12 percent increase in unemployment from 2008 to 2009, the government of Latvia quickly introduced a temporary works program called Workplaces with Stipends or The 100 LAT Program. It was designed over two months, effective in October 2009, and is expected to close by the end of 2011. As the labor market in Latvia is mainly formal, the target group consists of formal sector workers who were not eligible for unemployment insurance because of insufficient work histories or contributions. Initially, the jobs were of the emergency make-work kind (such as cleaning parks and streets), with little consideration to potential infrastructure needs, skills composition of participating workers, or upgrading or retraining.

The program was supported by the Bank as a second-best approach during the severe crisis period, while at the same time scaling up the unemployment benefit system to support more people with a larger benefit.

Sources: IEG case study, interviews with staff, partners, and clients.

with Bank assistance. While they may have an important political economy function, evidence of their effectiveness to produce short-term results is inconclusive, and their longer-term outcomes tend to be quite situation specific (Betcherman 2000; Betcherman, Olivas, and Dar 2004; Grosh and others 2008).

But little progress was made by the Bank in closing the gap of protecting the “new poor” in countries with high informality. Only in El Salvador, Mexico, and St. Lucia did the Bank support new large-scale temporary works and income support programs. However, the El Salvador *Programa de Apoyo Temporal al Ingreso* (PATI) program was only operational in 2011 after the peak of the crisis. In other countries, the Bank has supported small-scale employment programs and carried out analysis and technical assistance to start strengthening country capacity for employment programs. In Guatemala and Jamaica, Bank support was focused on strengthening the CCT programs and did not involve any substantial discussions of any kinds of programs that target workers even though much of the crisis impacts came via labor markets.³⁹

In countries where households risked having to withdraw children from school or reduce health care usage, the Bank supported efforts to mitigate these impacts (for example, via CCTs in Guatemala, Jamaica, and Mexico and reduced co-payments for low-income earners in Latvia).

Medium- and Long-Term Objectives: Financial Crisis as an Entry Point or Opportunity for Reform

The Bank also engaged in medium- to long-term support during the financial crisis period. About a fifth of Bank projects had only longer-term social protection objectives and was not aimed at mitigating specific crisis impacts (financial

crisis or other crisis). On a country level, case studies show that Bank support to social protection during the crisis tried to balance both short-term (crisis response) and long-term support, depending on the country-specific immediate crisis needs, the sustainability and efficiency of existing social protection systems, and country interest in reform. Bank support to social protection during the crisis took four forms, as shown in table 6.4.

Interventions that involved institutional change and capacity building were unlikely to respond to immediate needs. Only where program parameters could be adjusted (temporarily or on short notice)—essentially only well-structured programs with strong information bases—might institutional changes be introduced that could contribute to crisis mitigation. Such circumstances existed in Brazil, Bulgaria, and Poland, where the Bank also could draw on rich experience. Institutional change, such as pension reform, drafting and passing regulations, training staff, building information systems, and altering targeting formulas and parameters, takes time to materialize into outcomes. Case studies show that Bank technical assistance mainly focused on increasing the effectiveness of programs, notably by enhancing targeting, raising compatibility between programs, and refocusing labor market programs to better deal with crisis-related employment issues. Improvement to the targeting of benefits was present in support to Albania, Bosnia and Herzegovina, Moldova, Pakistan, the Philippines, and St. Lucia, for example.⁴⁰ In Europe and Central Asia, especially, the Bank is making efforts to reduce fragmentation of programs and maintain fewer but more efficient and poverty-focused programs.

In countries where systems were weak or knowledge scarce, Bank support focused on long-term reform and system building. Country evidence shows that programs in weak capacity settings could not quickly adapt to address crisis needs

BOX 6.5 THE BANK'S SUPPORT TO EXISTING VERSUS NEW SOCIAL PROTECTION PROGRAMS

The Bank's short-term responses were usually (74 percent of the operations) channeled through existing programs, which often required scaling up coverage to respond to the additional demands caused by the crisis. The portfolio review, case studies, and the staff survey show that the majority of Bank crisis support was channeled to existing programs. Case studies also show that the Bank provided technical details on which programs to scale up and how. Beneficiary coverage was increased in 43 percent and benefit levels in 15 percent of these projects (portfolio review). Evidence from the staff survey indicates similar trends in response to the triple crisis.

The Bank also took the opportunity to help launch new programs during the crisis. The staff survey results indicate that the most common new programs included public works (in Cambodia, Kazakhstan, Latvia, the Philippines, and St. Lucia), training for beneficiaries (in El Salvador, Macedonia, Mongolia, and Thailand), and CCTs (in Belize, El Salvador, Macedonia, and Montenegro).

Sources: IEG portfolio review, case studies, staff survey.

TABLE 6.4 Bank Support during the Crisis in the Context of Long-Term Engagement

Type of support	Countries
Part of an ongoing strengthening of social protection with some elements that were relevant to the crisis	Albania, Bosnia and Herzegovina, Brazil, Guatemala, Jamaica, Mexico
Part of a longer-term reform of social protection systems, and when the crisis hit key areas were given extra emphasis to be able to serve as crisis response	Bulgaria, El Salvador, Moldova, Philippines, Poland, Uruguay, Yemen, Rep. of
Explicitly initiated to cushion the financial crisis effects	Latvia
Not financial crisis related	Indonesia, Pakistan

Source: IEG case studies.

(for example, Pakistan and St. Lucia). This was the case in the majority of low-income and in a few middle-income countries. In St. Lucia, which was severely hit by multiple crises, social assistance programs were uncoordinated and poorly targeted. Bank support focused mainly on long-term reform, such as consolidation of programs and technical support for strengthening identification, targeting, and evaluation systems. In many countries, the Bank also has ongoing engagement with national statistical offices that aims at strengthening data. In low-income countries, where Bank engagement in social protection has been low and sometimes nonexistent, the Bank used trust funds to build capacity to address future crisis.

The RSR trust funds have as an objective to build and strengthen safety nets in low-income countries, for the current as well as future crises. IEG reviewed in depth eight RSR trust fund activities in six IDA countries. Consistent with the funds' objective, technical assistance provided through trust funds was used as a springboard for future investment lending in social protection.⁴¹ Of the \$9.5 million allocated to eight activities reviewed by IEG, almost 80 percent went to safety net operations that aimed to build capacity to mitigate future crisis effects, with the remainder going to improvement of labor market mechanisms and access to services (Kenya and Haiti, respectively). In five projects, activities were strongly crisis oriented, albeit for the future. For a detailed review of the methodology used and findings obtained in RSR trust funds review, see appendix F.

In several countries, the Bank continued its ongoing engagement in reform of the pensions systems during the crisis period. Thirteen percent of projects in the portfolio have reform of the pension system (contributory or non-contributory) as an objective. In most countries, reform efforts aimed at making the system more efficient and financially viable and creating fiscal space for more needed poverty-reducing expenditures (as in many countries in Europe and Central Asia and in Brazil, Colombia, Mozambique, Togo, Uruguay,

Zambia). In Europe and Central Asia, pension systems tend to be inefficient and costly (7 percent of GDP on average)⁴² because of generous replacement rates and indexing, loose eligibility criteria, and low retirement ages. For instance, in Albania, preliminary estimates show that pensions are paid out to 140 percent of the population over the age of 65, which means that around 30 percent of all pension payments may be fraudulent (World Bank 2009b). In Armenia, the life expectancy for women at retirement is more than 20 years. Coupled with the rapidly aging population, this implies that the pension system is very costly.⁴³

The crisis has prompted heightened interest in improving existing social protection systems, but more efforts in reforming labor market policy are needed. In countries such as Bosnia and Herzegovina, El Salvador, and Guatemala, the crisis sparked momentum for system reform. This accords with other studies (IEG 2011b) that also indicate that crises seem to be strong motivators for reforming social programs, as the urgency for reform is often felt only when there is immediate need. However, in many countries there was limited opportunity to address long-term social protection issues and the link to labor markets, mainly because of lack of client interest. In Mexico, the social insurance system is very fragmented and in need of reform. However, the government and the Bank were only focused on addressing immediate funding needs. Similarly in Latvia, temporary programs to alleviate the large increase in unemployment were put in place, but there has not been much traction on long-term reform of the social insurance system.⁴⁴

Effectiveness of Bank Support for Addressing Impacts on Households

Although the focus of Bank interventions was partially aligned with crisis needs, results depend on getting the project design right, including setting relevant targets and having adequate monitoring and evaluation systems to assess results and the impact on beneficiaries.

Given the limited availability of real-time data, project design details often did not focus explicitly on crisis-affected people to ensure that they were protected. Although interventions may have facilitated implementation or raised the effectiveness of a given program, this does not necessarily mean that crisis-affected individuals will benefit if they have different characteristics from those the program normally targets. For example, a (proxy) means-tested cash transfer program will only protect households that qualify based on the eligibility formula (usually only those below the poverty line). Drawing on the portfolio analysis of project documents, IEG found that only half of the projects that aim to address the financial crisis were able to explicitly targeted people affected by crisis—poor or near-poor. Crisis-specific targeting was only slightly higher in the group of countries with severe crisis impacts (54 percent) than in countries with moderate to low impact. Labor market-related programs (active and passive) had explicit crisis targeting more often, as initiatives mainly focused on the newly unemployed.⁴⁵

Explicit targeting of specific crisis-affected groups seems to have been most successful in countries where recent household budget analyses were undertaken and specific crisis impact studies initiated. Latvia, Mexico, and Poland are such cases. Guatemala and Moldova are examples where monitoring systems were being developed to track future program implementation and allow for outcome evaluations. Often, although strengthening of social protection programs was undertaken to ease income shocks to the poor and the crisis-driven new-poor, distinctions between these groups were not made.

Likewise, projects could not systematically monitor the impact of the crisis and the effectiveness of responses as crisis protection interventions. Although most of the projects in the countries that were analyzed in depth have results frameworks that monitor the effect of the social protection programs on the poor and vulnerable,⁴⁶ they did not monitor crisis-specific effects—that is, the impact of the crisis on affected groups or the effectiveness of the crisis-mitigation intervention put in place. Again, labor market interventions are an exception, as they directly responded to workers who lost their jobs or earnings. Of the case studies, only in Indonesia, Latvia, Mexico, Poland, and Uruguay were data available that could be used for monitoring the crisis impacts on households.

However, the Bank undertook a number of simulations on the distributional dimensions of the crisis to strengthen targeted social assistance programs. Latvia and Mexico, which collect labor market and poverty data monthly, were able to (with the Bank's help) simulate crisis impacts on the poor and vulnerable as well as determine to what extent the planned social protection actions would affect the poverty

headcount and the poverty gap. Similar analysis was also done in Armenia, Poland, Romania, and Turkey.

Impacts on households from social protection interventions during the crisis are still generally unknown. No crisis-generated investment loan has closed yet, and impact evaluation results are still pending.⁴⁷ As noted earlier, only in instances where program adjustments were taking place at the margin—increasing the value and coverage of an already well-designed program—and expanding works are programs likely to have an immediate effect. The Philippines is such a case: The country's CCT was initiated on a pilot basis in 2008 and covered some 6,000 households; by the end of 2010, it had been scaled up to 1 million households.

To be effective in times of crisis, the Bank and governments need to pay attention not only to the design of projects and programs but also to the timeliness of projects. A case in point is the Income Support Project in El Salvador. The government of El Salvador designed an anti-crisis plan that included strengthening the existing CCT program and introducing a temporary income support program. However, the loan became effective only in January 2011, when economic growth had already resumed. The delay reflected in-country political difficulties, procedural misunderstandings, and procurement obstacles.

However, the Bank has stepped up its crisis monitoring, but only in Europe and Central Asia has it been possible to undertake analysis in real time. In 2009 the Bank undertook crisis response surveys in 12 countries in this Region. The findings, which were synthesized in *The Jobs Crisis: Household and Government Responses to the Great Recession on Eastern Europe and Central Asia* (World Bank 2011b), provide empirical evidence on the social impact of a deteriorating macro environment on the welfare of households. A round of follow-up surveys is currently being done. In Latin America and the Caribbean, an ex post study is being prepared on the social protection response and poverty implications of the crisis in nine countries. In 2011, data have become available for a larger number of mainly middle-income countries, which has led the Bank to produce a number of cross-country analyses.

It is likely that many of the long-term improvements to social protection systems initiated during the crisis will be sustained. The staff survey undertaken by the safety net evaluation indicates that there are plans in 50 countries (81 percent of respondents) under way for modifying the design of safety net programs to improve their effectiveness. Also, in 47 countries (76 percent of responses) there are plans to strengthen institutions for safety nets. Many staff indicated that the Bank is helping countries prepare for future crises by providing AAA (53 countries, 86 percent), extending lend-

ing (37 countries, 60 percent), and organizing knowledge events (40 countries, 65 percent).

Also, the outputs generated by trust funds are considered sustainable in most reviewed activities because they commonly contributed to the development of a Bank-supported project. A notable exception is the Haiti gender-based violence activity, which was a one-time intervention to address a specific issue. In contrast, in Cameroon and Nepal, where the trust funds contribute to the design of a safety net pilot, and Liberia and Timor-Leste, where the trust funds allow institution building to get under way to prepare for future social protection projects.

Countries need to carefully analyze whether the expansion of social protection programs as a consequence of a crisis will be temporary or permanent, as expansion can introduce new fiscal costs. Social protection programs were temporarily expanded (benefits raised, eligibility rules relaxed, intensification of works, and other measures) in many countries. But new programs were also initiated (for example, cash transfers, wage subsidies) that may be difficult to scale down once the crisis has passed. If the scaling up is intended to be permanent, it should be part of a longer-term strategy. If the scaling up is temporary, governments and the Bank need to put in place the necessary measures that will allow a scaling back (for example, that beneficiaries understand that the support is temporary with a clear objective, a clear timeframe, and transition arrangements). The current crisis offers a broad field for analyzing the implications of scaling up benefits during a crisis, especially the use of permanent social assistance programs such as cash transfers (box 6.6).

Conclusions

Even though the full impact of the financial crisis is not yet fully known, it is likely that the effects on households were significant. The social consequences were severe for those affected by contractions in the labor market, especially young male workers (World Bank 2011b), and for households dependent on remittances. In contrast to other crises, such as rising food prices, the financial crisis had a strong impact on the “near poor” or “new poor,” in addition to those already poor and vulnerable.

The Bank’s crisis lending was concentrated in Europe and Central Asia and Latin America and the Caribbean and was dominated by programs aimed at the poor, although only a small share went to countries with severe crisis impacts. Bank lending for social protection increased sharply with the start of the global crisis. Most lending went to a handful of middle-income countries in Latin America and the Caribbean and Europe and Central Asia. These countries normally have large overall lending envelopes and were also the most affected by the crisis. The largest increase in lending was for poverty-targeted safety net programs, which may be most suitable for addressing chronic poverty. A relatively small amount of the additional crisis lending went to interventions specifically aimed to automatically absorb household shocks channeled through the labor market in countries with strong crisis impacts. That said, the focus on social protection linked to labor market fluctuations (formal and informal) was stronger in countries severely affected by the crisis. In low-income countries, where immediate crisis mitigation lending was limited, the attention was on building up social protection systems for the future.

BOX 6.6 CONSEQUENCES OF SCALING UP BENEFITS IN TIMES OF CRISIS

As a consequence of the food crisis, Mexico increased benefit levels of the *Oportunidades* CCT program by 5–10 percent to support poor households during the crisis period. However, three years after the crisis, the benefit level has not been decreased, and it may be a challenge to do this, as the additional benefit is now viewed by beneficiaries as an entitlement.

The Romanian government generously increased pension benefits, reaching half of the population, during the crisis. As a consequence, poverty rates dropped and incomes increased. But the expansion resulted in large fiscal pressures, with pension spending escalating to 8.2 percent of GDP in 2009. The Bank is working on pension reform in Romania through a DPO.

In contrast, Indonesia and Latvia put in place the necessary measures to ensure that the expansion of benefits scaled down when growth and employment rebounded. Indonesia succeeded in putting in place temporary social safety net benefits for specific events, notably adjustments in subsidies, which were subsequently withdrawn without major social or political consequences. In Latvia, the temporary public works scheme will be fully dismantled by 2012.

Sources: IEG case studies.

Because country systems were not necessarily designed to address discrete shocks, such as the financial crisis, the Bank was constrained in its crisis interventions. In many countries in Europe and Central Asia, social protection systems are still fragmented and badly coordinated, often targeting narrow groups and the chronically poor, and they are not easily adapted to dealing with temporary shocks. The most appropriate programs to deal with a labor market shock—essentially unemployment insurance—also had limited coverage and did not reach informal sector workers. Safety nets were larger in many countries, especially in Latin America and the Caribbean, but intake processes tend to be too slow for immediate crisis response. Countries in this Region also tend to have fewer programs tailored to address labor market contractions than do those in Europe and Central Asia; this is highly correlated with the large informality in Latin America and the Caribbean. Timely data on crisis-affected groups were lacking in many crisis-affected countries.

Therefore, the Bank's immediate crisis response was limited to providing well-functioning programs with technical advice and additional resources for expansion. The Bank relied on countries' existing social protection systems, and the immediacy and severity of the crisis did not allow for the development of new and more efficient systems that were better suited to the nature of the global crisis. The Bank addressed immediate crisis needs mainly by providing quick technical advice and funding. The Bank's technical knowledge and advice to countries on which social assistance and employment benefit programs to use for crisis response and how to alter their parameters to allow scaling up was highly valued by countries. The experience with labor markets programs illustrates the point. The unemployment benefit system, although covering only formal sector workers that in many instances were a minority in the labor force, was effectively scaled up (in Bulgaria, Latvia, and Romania) and was quick and flexible in responding to the crisis. The duration of benefits was extended, and in some cases work history requirements were relaxed (in Bulgaria and Latvia).

Automatic stabilizers that respond to shocks are needed to protect informal sector workers who lose earnings. With unemployment insurance covering only some formal sector workers and cash assistance providing for the poor, informal sector workers easily fall between the cracks in the absence of programs that are able to provide support for this "missing middle" of the scale. Income support programs linked to work or training could potentially fill this gap, but they are rare and national-level coverage is generally too low to fully respond to macro crises. New public work or income support programs served as temporary measures where crisis-affected groups could not be absorbed by permanent social protection mechanisms, but only in very few countries (El Salvador, Latvia, and Mexico). In low-income countries es-

tablishing adaptable public works programs may be an option for providing protection to those affected by future crises, but design details require careful consideration.

Some of the Bank's support for social protection during the crisis was part of a longer-term continuous engagement for expanding and improving safety nets. The scaling up of many CCT programs supported by the Bank in Latin America and the Caribbean and the Philippines, for example, was already planned before the crisis. The scaling up coincided with the crisis, and programs were able to absorb some of those who fell below the poverty threshold. But the scaling up was not a thought-out crisis response (in Guatemala, Jamaica, and Mexico). Also, permanent safety net programs, often targeted to women and children, are generally not flexible enough to quickly protect crisis-affected individuals who may not be eligible for poverty-targeted benefits. Because countries did not have well-designed temporary insurance for poor, new-poor, and near-poor workers, the Bank prioritized programs targeting all poor and vulnerable.

Given the limited availability of real-time crisis data, targeting of crisis-affected groups was often not possible. Only about half of the projects that aimed to mitigate the impacts of the financial crisis could explicitly target specific crisis-affected groups. Also, few projects were able to specifically monitor the crisis impacts on households that were negatively affected, and few monitored the impacts of the project on mitigating the crisis. Rather, projects generally targeted and monitored "the poor and vulnerable" without specifying whether they were chronically poor or newly poor because of the crisis. The exception was labor market programs, for which initiatives mainly focused on the newly unemployed. It is not known whether using a program that targets all poor below a certain threshold in order to mitigate the impacts of the crisis would reach the most affected groups in the most efficient way. For this reason, even though it is still too early to judge, the impact of Bank support on household well-being during the crisis may not be fully known.

Nevertheless, the crisis created opportunity for initiating longer-term reform in some countries (for example, Bosnia and Herzegovina, El Salvador, and Guatemala), but more effort to reform labor market policy is needed. In low-income countries, the trust funds that became available during the crisis proved valuable as a catalyst for initiating the dialogue on social protection and piloting new initiatives to better prepare low-income countries for future crises. In other countries (Latvia and Mexico), the focus of Bank support was on immediate crisis response, although there was a clear need for system reform. More effort is needed in reforming labor markets and social insurance systems to protect both formal and informal workers without distorting incentives for formal and productive employment.

7

Conclusions and the Way Forward

IEG's Phase I evaluation pointed to the need for closer evaluation of the response. Outstanding questions included the quality of crisis lending in certain sectors, the appropriateness of the Bank's instruments, the effectiveness of crisis support to fiscal management, and the quality of social programs during the crisis. At IFC, the report raised the need for a closer look at its new initiatives for crisis response and its portfolio protection measures. At MIGA, a closer look at the relevance and effectiveness of its crisis response was called for, at the project level and relative to other political risk insurers.

This Phase II evaluation provides a selective but more granular view of some of these issues. First, it situates the Bank's response in the wider comparative context of the crisis response of other IFIs. It examines, in particular, the overall allocation of resources, choice and design of financial instruments, and quality of response in those sectors that were central to the Bank's crisis engagement. It confirms some key findings from the Phase I evaluation and qualifies others based on stronger empirical evidence. It also undertakes a more detailed review of crisis operations at IFC and MIGA. Although the initial impact of the financial crisis has now passed for most of the Bank Group's client countries, the findings from the present evaluation can inform the design of support for recovery, especially in terms of its fiscal management. The lessons from this evaluation can also inform the Bank's future role in helping partner countries manage crisis, a purpose to which the current global economic outlook lends at least some cogency.

Overall Bank Group Response: Conclusions

Reaffirming the findings of the Phase I evaluation, IEG finds that, in accordance with commitments to the G20 and global commitments to countercyclical support, the Bank greatly increased its financial support during the crisis, proportionally more than other IFIs, and especially to IBRD countries. The evaluation also reaffirms other Phase I findings: accelerations in processing efficiency and disbursement speed; the positive role, in crisis response, of well-established country dialogue and country

knowledge, though there is a need to balance country focus with a global strategy for impact; and the Bank's comfortable financial position at the start of the crisis as a key element underpinning its crisis response. Findings regarding IFC and MIGA in the Phase I evaluation have also been reaffirmed: IFC's largely pro-cyclical response—though its financial capacity could have supported a moderate countercyclical response—as well as its creative crisis initiatives, though sometimes delayed in implementation. It also reaffirms MIGA's countercyclical support to key financial institutions in Eastern Europe.

A new finding in IEG's Phase II evaluation is that the correlation between crisis intensity and incremental Bank lending is not statistically significant. The Bank's crisis response was a large increment of its previous lending, but it was spread across many client countries. Rather than being targeted toward most-affected countries, it tended to follow pre-crisis lending patterns. This does not mean that the Bank did not increase lending to affected countries. Indeed, some crisis-affected countries received large incremental lending, but so did many less-affected countries. Compared with the Bank, increased lending by other IFIs and MDBs was higher for countries with greater stress, even separating out the IMF, as well as the EU and EIB.

These results may only partially capture other factors that impact country allocations; demand-side effects, country performance, and dialogue. They also reflect limited flexibility in IDA allocations, of around a quarter of the Bank's crisis lending. They also do not constitute a

judgment on the appropriate role for the Bank in providing a global stimulus, for example, or in signaling support to countries with a secondary level of stress that do not have access to IMF support. As a primarily development finance institution, the Bank has multiple factors that determine the outcomes of its lending decisions. A question not addressed is what would have happened in client countries in the absence of Bank support, owing to the near-impossibility of constructing a credible counterfactual. Although Bank lending may have been a small fraction of countries' budget support or stimulus needs, the signaling impact of Bank support on markets could conceivably have been important, although virtually impossible to quantify.

IBRD changes in lending spreads and terms shortly before the crisis, which may have been appropriate in the market conditions prevailing in 2007, implied that IBRD's large volumes of loans during the crisis were at historically low spreads and were lower in cost than alternative sources, including other IFIs. As it became clear that despite the capital buffers at the onset of the crisis, the scale and speed of IBRD's crisis response would adversely impact its post-crisis lending capacity sharply, IBRD lending spreads and terms were adjusted in August 2009 and early 2010, somewhat late in the course of the crisis. Other IFIs were somewhat better positioned to safeguard their income from loan spreads—the IDB and AfDB through their higher lending rates for standard products compared to IBRD, the IMF through its differential pricing for above quota access, and the ADB through its larger use of its crisis lending facility.

Partly as a result of the increase in lending during the crisis, IBRD experienced an erosion of its lending headroom. The rapid increase in lending without a corresponding increase in capital and reserves led to a decline in the Bank's equity-to-loan ratio, from a peak of over 37.5 percent before the crisis to around 28.5 percent at the end of FY10. Given the long disbursement periods of IBRD loans, effects will be gradually manifest with a projected further decline until FY15–17. This reflected deliberate choices by Bank management and shareholders at the time, in view of its pre-crisis capital position that was arguably high, given the Bank's development mandate. But the resulting lower headroom could constrain the Bank's ability to respond to what is now seen as the most likely global scenario of slow growth—if not a double dip—or to respond to a future crisis.

A question going forward is the extent to which it is desirable to maintain or rebuild headroom to protect the Bank's ability for future crisis response. Other important questions concern overall income and income allocation. Prudent investment policies at IBRD and, notably, timely action to

help protect its equity earnings against declining interest rates through an innovative equity duration swap, helped safeguard the Bank's overall financial capacity. Nevertheless, declining income could be a medium-term concern. Commitment to IDA transfers also constrains the allocation of income.

The introduction of crisis-specific instruments that do not constrain capital over the long term could help to preserve future crisis preparedness. Most MDBs and IFIs relied on their existing instruments for their expansion in lending; however, all of them adjusted lending terms and made efforts to introduce design modifications to allow targeted disbursements to crisis-affected countries, albeit at a higher price and at significantly shorter maturities, to reflect the short-term nature of crises and to prevent a long-term charge on their balance sheets. The MDBs also tried to revive and modify previous crisis lending instruments.

In some cases, useful medium-term reform was undertaken, and in others, the difficulty of focusing on the medium term during a crisis tended to limit the extent of medium-term reform achieved. Although there may be tensions between short-term crisis response and the achievement of medium-term development goals, there are also complementarities, as crisis support can help preserve longer-term objectives in periods of difficulty. In practice the policy content of lending operations was limited in both directions. Many lending operations during the crisis had to perforce rely largely on existing country engagements, which then became a substantial focus of crisis operations, especially in less-affected countries. As a result, many operations did not feature support for short-term policy responses to the crisis (for example, through protection for social or infrastructure expenditures), nor were they able to support the furthering of a solid medium-term reform agenda (for example, by tackling structural issues in banking reform or in creating “automatic stabilizers” for social protection during crises).

A question for the Bank going forward is whether it should consider a new form of countercyclical crisis engagement. Recognizing the difficulties of achieving solid medium-term engagement through crisis lending, and also recognizing the contribution of countercyclical fiscal support toward preserving gains achieved in longer-term development, such an instrument would be less demanding in terms of medium-term reform. It would also reflect a shorter, crisis-specific engagement through shorter maturities or lending premiums for countries that are normally able to access the market. Unlike the Bank's present Special Development Policy Loan, its use could be separated from the need for a disbursing IMF program, thus making it available for less-stressed

better performers. Its provision would be largely linked to the maintenance of good policies in the medium term and the protection of funding to social sectors that are key to medium-term poverty reduction.

IFC's crisis response did not include an escalation in its volume of support, reflecting strategic choices in the form of protection of its portfolio. Its capital constraints have also been pointed out as a limiting factor, but other MDBs—ADB, AfDB, and IDB—were similarly constrained, as was EBRD. Although nonsovereign operations softened during the crisis at all MDBs, EBRD was an exception. One consideration may be that IFC's response, relative to EBRD's, reflected the institutions' respective portfolios. Both IFC and EBRD undertook to protect their portfolios, but EBRD's portfolio protection dictated its expansionary behavior, given its extreme concentration in a single region (a too-big-to-fail issue). EBRD's imperative to protect stability in Europe and Central Asia was closely aligned with its need to safeguard its own investments. IFC, with a more diversified portfolio, did not have the same alignment.

IFC could better calibrate its stress testing systems to avoid a similar pattern of response with future crises. IFC had anticipated a high volume of distressed assets because of the crisis, but that did not occur. Its distressed assets turned out to be far lower than expected—4.4 percent, compared with 16–18 percent in previous crises. This difference could be because its stress testing was not sufficiently granular to accurately capture risks of distress. Moreover, the crisis was shorter than expected, and many client countries were less affected than expected. Given its anticipation of large distressed assets, IFC took proactive steps to protect its portfolio. It strengthened and prioritized the functions of the Portfolio Management Department, adjusted its investment mix, introduced a corporate tracking system to monitor investments, and undertook measures to enhance productivity and efficiency.

MIGA grounded its strategy toward the crisis in an assessment of potential risks to its guarantee portfolio, counterbalanced by its recognition of the need for coordinated international efforts. Although its commitments increased over the crisis period, its activity compared with other Berne Union public or private insurers declined over the period, despite its advantageous longer tenors and comfortable initial capital position.

Financial Sector Support to Governments: The World Bank

Most of the Bank's financial sector lending during the present crisis went to countries suffering only a moder-

ate degree of economic and financial stress. A large part of lending took place through multisector support, and much was not directly relevant to the crisis. There was negligible difference in thematic content between “crisis” and “non-crisis” financial sector crisis lending.

The Bank's policy loans in support of financial reform in deeply affected crisis countries had relevant policy content, focused on crisis-related themes, and contributed to stabilization. But the role of the Bank was small, its funds were usually provided late relative to immediate crisis needs, and its main role may have been in helping signal a coordinated IFI response. Going forward, the limited size of Bank support could also limit its role in crisis policy dialogue. IMF conditionality tended to cover the most immediate issues, whereas the Bank focused on more medium-term issues. Sustainability in these crisis operations has been mixed, often because of country factors, and some deeper structural issues have persisted.

Most of the Bank's financial sector crisis commitments went to countries that were only moderately affected. In many cases compounded by large credit expansion before the crisis, these countries faced constrictions in exports, growth, employment, and capital inflows but did not suffer a financial crisis. In the absence of IMF Stand-By Arrangements the Bank was the chief provider of advice and support. Bank operations, typically through multisector DPLs, were general, built incrementally on existing country dialogue, and medium term in orientation rather than crisis related. This reflected pressures for rapid preparation as well as the general soundness of these countries' financial systems. Sometimes useful contributions were made to medium-term reforms. But opportunities were difficult to seize during the crisis, and occasionally, significant financial sector issues were neglected. Fiscal support and signals of support to markets were arguably the Bank's major contributions in these operations. The sector vehicle of these DPLs (financial, fiscal, or other) was a lesser issue. Programs were based on areas that lent themselves to swift preparation, often through prior or ongoing engagement.

The World Bank also extended substantial crisis assistance to the financial sector through financial intermediaries, with the intent to directly address the credit needs of the most vulnerable market agents during a crisis. However, few FILs were able to disburse rapidly, although loans to experienced institutions, to exporters, and repeat loans were better equipped to do so.

The quality of Bank support to countries' financial sectors during the crisis depended also on its pre-crisis engagement,

especially advisory services. Much of it took the form of FSAPs undertaken as joint exercises with the IMF, which had generally identified the countries' financial sector vulnerabilities and provided a good basis for crisis intervention. The Bank's overall engagement in the financial sector was adequate before the crisis, though there had been some decline in volume of AAA in the immediately preceding years.

Support to the Private Sector: IFC and MIGA

Although IFC's crisis response strategy, largely focused on the financial sector, was well articulated and highly relevant, its implementation was weak. The decision to leverage partnerships and funding by launching new platforms was highly innovative but necessarily time consuming. As a result, implementation was delayed. The Global Trade Liquidity Program, based on the Global Trade Finance Program launched in 2005, was successful. Both helped alleviate trade finance shortages and help SME clients whose needs might not have been met otherwise. The performance of the Bank Recapitalization Fund was modest though behind target, and the Microfinance Enhancement Fund, the Debt and Asset Recovery and Infrastructure Crisis Facility initiatives lagged considerably behind targets. And although IFC Advisory Services identified genuine gaps, it is an inherently long-term initiative.

IFC's simple methodology and reliance on extreme events in historical macro data contributed to an overestimation of its portfolio deterioration in a crisis. The results were one factor behind the slowdown in investment decisions in the initial phase of the crisis. More granular stress tests that reflect the current portfolio, based on the impact of changes in growth transactions on the cash flow of individual industries and transactions, could have been more informative of the prospective impact of a crisis on IFC's investments.

Risk Management and Nonperforming Loan Advisory Services are inherently long-term initiatives. IFC identified a gap in financial stability and invested in developing diagnostic tools. The initiative has a broad number of components, and it would be important to articulate a more selective strategy and refine the methods and tools for monitoring and evaluating the impact of the interventions. In addition, collaboration with the Debt and Asset Recovery Program and Bank Recapitalization Fund could be strengthened.

IFC deployed several financial instruments—loans, quasi-equity, quasi-loans, equity, guarantees, and client risk management—in the financial sector but did not increase the volume or risks of its investments. Although IFC increased its commitments slightly later in the crisis after retrenching in FY09, it maintained the same risk profile.

Based on the sample reviewed, it designated two-thirds of the projects as crisis response projects. IFC's lines of credit introduced multiple objectives peripheral to the crisis and typically targeted smaller institutions that did not have a systemic impact. The balance of projects addressed other objectives, such as increased access and energy efficiency. IEG rates the strategic relevance of IFC's projects designated as crisis response as moderately satisfactory.

MIGA's guarantees in Europe and Central Asia helped support the recapitalization of banks and other financial institutions. In some cases these institutions had gone through credit booms, were facing rising levels of nonperforming loans, and were dependent on parent bank provision of liquidity and funding in an environment of shallow local currency markets. In this environment, MIGA's guarantees enabled parent banks to add extra capital to subsidiaries while limiting their sovereign political risk exposure.

MIGA could usefully be informed by the following crisis lessons in implementing its new FY12–14 Strategy (MIGA 2011). Its crisis response was strongly strategically relevant and contributed to economically sustainable private sector development. Its response demonstrates the value of organizational flexibility and leveraging of the World Bank Group role. MIGA could have done more in terms of volume of guarantees underwritten compared with other political risk insurance providers and in terms of its own capital availability. It needs to deploy its operating capital more proactively.¹ MIGA needs to strengthen its business development function. Its strong relationships with a very small number of clients need to be replicated more widely.

The Bank, IFC, and MIGA all had substantial roles in the financial sector during the crisis, but there is only partial evidence of cooperation. With regard to lines of credit at the World Bank (FILs) and World Bank-IFC cooperation, around three-fifths of the 14 crisis-related FILs reviewed over the period broadly complied with Bank's operational directives on World Bank Group cooperation. Bank-IFC operational cooperation in the financial sector during the crisis varied from country to country, even within the same Region. MIGA's cooperation largely was channeled through its coordination of strategy in the form of its Financial Sector Initiative. Hence, one lesson from financial sector operations during the crisis is that there is scope for expanded cooperation between members of the World Bank Group.

Fiscal Support through Development Policy Operations

The majority of the Bank's financing through DPOs that were focused on fiscal management was concentrated in

countries with moderate fiscal stress. Some of these client countries were able to initiate, to varying degrees, a countercyclical response to the crisis. Bank response cushioned the sharp increase in financing needs associated with the crisis, incrementally augmenting commitments of already programmed DPOs or initiating new stand-alone operations. The pattern of financing was broadly aligned with the Bank's exposure to client countries before the crisis, based on their pre-crisis fiscal positions.

The policy content of DPOs was often only partly relevant to the fiscal challenges of the crisis, reflecting in many cases the need for rapid processing and crisis induced pressures. Some programmatic DPOs were not modified to address the consequences of the crisis. Most also included policy components with other foci; in only half were these relevant to the crisis, despite their relevance for longer-term development objectives. In some cases, budget support was provided through operations with no fiscal content, for example, environmental DPOs whose commitment amounts were considerably augmented compared to plans. Some, though deemed fiscal support operations, had no fiscal content.

Fiscal consolidation measures supported by the crisis response DPOs were often insufficient to help attain sound fiscal positions. In some cases, this was because the economic and fiscal impacts of the crisis were underestimated. In some other cases, because potentially sensitive or demanding measures—such as reduction of subsidies or curtailment of low-priority investments—were sidestepped, or because fiscal measures supported were backward looking, with little expected impact of future fiscal positions. Yet in other cases, as the DPOs were not sufficiently modified to address the impact of the crisis, the measures supported were not necessarily called for from a stabilization perspective. Targets for the fiscal deficit, fiscal revenues, and expenditures or the public debt ratio, were included in less than one-third of DPOs for countries under high or moderate fiscal stress.

Only half of crisis response DPOs with fiscal content included provisions to safeguard or scale up social protection expenditures. Expenditures for education and health were protected in less than one-third of the DPOs, more frequently in countries with adequate fiscal space. Similarly, public investments were safeguarded and public work programs scaled up in DPOs for countries with low fiscal stress, but less frequently so where fiscal stress was more elevated.

When countercyclical policies were supported, there was not always close attention to the fiscal space required for affordable countercyclical stimulus. Although strong caveats do apply to attribution, a majority of client country recipients of fiscal management-focused DPOs that entered

the crisis with low or moderate fiscal stress emerged from the crisis in weaker fiscal positions.

In the public financial management area, crisis response DPOs typically supported a broad array of reforms that should help attain stronger fiscal outcomes in the future. However, as public financial management reforms require focused action over time to attain the expected results, stand-alone crisis response DPOs were ill suited to follow up on this reform agenda. Important structural fiscal reforms were sometimes disregarded.

The Bank's knowledge base in public finance was generally sufficient—with some gaps when lending had declined before the crisis. Diagnostic work was sufficient, especially in public financial management, an area where a long-standing engagement had been maintained. However, there were noticeable knowledge gaps in countries in which the Bank's pre-crisis engagement had waned.

Social Protection: Run-Up to the Crisis and during the Crisis

The largest increase in Bank lending for social protection during the global crisis was for demand-driven, poverty-targeted safety net programs. During the crisis, most lending went to a handful of middle-income countries in Latin America and the Caribbean and Europe and Central Asia. A relatively small amount of incremental lending went to interventions specifically aimed to automatically absorb household shocks channeled through the labor market in countries with strong crisis impacts. That said, the focus on social protection linked to labor market fluctuations (formal and informal) was stronger in countries severely affected by the crisis. In low-income countries, where immediate crisis mitigation lending was limited, the attention was on building up social protection systems for the future.

The Bank was constrained in its crisis interventions, because country systems were not necessarily designed to address discrete shocks, such as the financial crisis. In many Europe and Central Asia countries, social protection systems are still fragmented and badly coordinated, often targeting narrow groups and the chronically poor; and they are not easily adapted to dealing with temporary shocks. The most appropriate programs to deal with a labor market shock, essentially unemployment insurance, also had limited coverage and did not reach informal sector workers. Safety nets were larger in many countries, especially in Latin America and the Caribbean, but intake processes tended to be too slow for immediate crisis response. Timely data on crisis-affected groups were lacking in crisis-affected countries in the Region but were largely available in Europe and Central

Asia. Countries in Latin America and the Caribbean tended to have fewer programs tailored to address labor market contractions than in Europe and Central Asia, reflecting the large informality in Latin America and the Caribbean.

The Bank's immediate crisis response was therefore limited to providing well-functioning programs with technical assistance and additional resources for expansion. The immediacy and severity of the crisis left both countries and the Bank without means to develop new and more efficient systems to address the nature of the global crisis. Instead, the Bank's technical knowledge on which existing country programs were best suited to crisis response and how to alter their parameters to allow scaling up was highly valued by countries, as illustrated by the experience with some labor market programs. The unemployment benefit system, although it covered only formal sector workers that in many instances were a minority in the labor force, was effectively scaled up in Bulgaria, Latvia, and Romania: the duration of benefits was extended, and in some cases work history requirements were relaxed (Bulgaria and Latvia).

Some of the Bank's support for social protection during the crisis was part of a longer-term continuous engagement for expanding and improving safety nets. The scaling up of many CCT programs supported by the Bank, in Latin America and the Caribbean and the Philippines, for example, was already planned before the crisis. It coincided with the crisis, and programs were able to absorb some of those who fell below the poverty threshold. But the scaling up was not a thought-out crisis response (in Guatemala, Jamaica, and Mexico). Also, permanent safety net programs, often targeted to women and children, are generally not flexible enough to quickly protect crisis-affected individuals who may not be eligible for poverty-targeted benefits. Because countries did not have available well-designed temporary insurance for poor, new-poor, and near-poor workers, the Bank prioritized the poor and vulnerable.

Given the limited availability of real-time crisis data, targeting of crisis-affected groups was often not possible. Only about half of the projects that aimed to mitigate the impacts of the financial crisis could explicitly target specific crisis-affected groups. Also, few projects were able to specifically monitor the crisis impacts on households that were negatively affected, and few monitored the impacts of the project on mitigating the crisis. Rather, projects generally targeted and monitored "the poor and vulnerable" without specifying whether they were chronically poor or newly poor because of the crisis. The exception was labor market programs for which initiatives mainly focused on the newly

unemployed. It is not known whether using a program that targets all poor below a certain threshold in order to mitigate the impacts of the crisis would reach the most affected groups in the most efficient way. For this reason, the impact of Bank support on household well-being during the crisis may not be fully known.

Nevertheless, the crisis catalyzed longer-term reform in some countries (for example, Bosnia and Herzegovina, El Salvador, Guatemala, and Moldova), **but more effort in reforming labor market policy is needed.** In low-income countries, the trust funds that became available during the crisis proved a valuable catalyst for initiating the dialogue on social protection and piloting new initiatives for better preparing these countries for future crises. In other countries (Mexico and Latvia), the focus of Bank support was on immediate crisis response, although there was a clear need for system reform. More effort is needed in reforming labor markets and social insurance systems, to protect both formal and informal workers without distorting incentives for formal and productive employment.

Overall Finding

A common message to emerge from the preceding sector analysis is that the Bank's present instruments may not be well adapted to the nature of crisis lending. Limitations appear in content in terms of responding to the needs of the moment or in terms of achieving medium-term support. During the crisis, the Bank has had to rely largely on its existing country engagements, which then become a substantial focus of its crisis operations, especially in less-affected countries. Although in some cases useful medium-term reform has been undertaken, in many cases the difficult circumstances of preparation of operations during a crisis tend to limit the extent of medium-term reform achieved. Especially in countries that may be less seriously affected, a question for the Bank is whether, given the difficulties of achieving solid medium-term engagement through crisis lending, a new form of countercyclical crisis engagement is needed that is less demanding in terms of depth of reform but that also reflects a shorter, crisis-specific engagement, through shorter maturities or lending premiums for countries that are normally able to access the market.

Future Directions for More Effective Crisis Response

Responding to the call for countercyclical stimulus from the G20 and from the Board, the World Bank Group was very proactive during the recent global financial crisis, yet there is scope for further consideration of its role and

strategy in future crises. If the Bank wishes to maintain a significant role in supporting seriously affected crisis countries, which have IMF programs (and during crises, there is pressure for the IFIs to act in unison), IEG suggests measures that could make the Bank's interventions more effective. Equally, if the Bank is deemed to have a major role in its support to less affected countries where there is less support from other sources, it could equip itself with more appropriate instruments. Broad directions that emanate from the findings are discussed below, and specific suggestions follow at the end of the chapter.

Severely Crisis-Affected Countries

Maximizing complementary efforts with other partners, especially the IMF, the Bank could better ensure sustainable recovery by a phased program of intervention that sets forward-looking targets. Such targets can be fiscal or financial. The measures envisaged to achieve the targets need to be credible and quantified. In the presence of IMF programs, the Bank could most likely use the IMF program's targets. This suggests the use of a programmatic DPL series, rather than stand-alone operations. Otherwise, the backward-looking policy content of traditional DPLs, which focus on actions already achieved, may limit their appropriateness for crisis.

Another area for consideration is the timeliness of Bank interventions, if they are to be used for the critical months of liquidity support. If this role is left to the IMF, the Bank would still have a role in the recovery phase, where the issues are more akin to ongoing development, for example, in institutional restructuring. Going forward, the frequently small relative size of the Bank's contribution in a multidonor setting could diminish the Bank's dialogue in crisis countries, unless the Bank has a clearly recognized role among IFIs, for instance, a focus on longer-term structural issues. Finally, policies toward graduates could be clarified.

Less-Affected Countries

The IMF is focusing on countries with serious crises; a parallel direction for the Bank would be to focus on helping those countries that encounter serious constraints that do not reach crisis proportions and where there is no IMF program. Its recent broad-based expansion of resources to countries mainly with moderate crisis impact would be consistent with this role. Strategic coordination of the Bank's response across both groups of countries to ascertain relevance and priorities beyond the country-driven and credit risk-based model of resource allocation would be appropriate. Strategic decisions would also be needed regarding the roles of the IMF and the World Bank Group in crisis, based

on factors including overall strategic demands, as well as the two institutions' resources, capacity, and client needs. A possible outcome could be the focus of the IMF on the most-affected countries, and the Bank would work on a second tier of affected countries. The Bank Group would also remain equipped to contribute to the pre-crisis phase, by building and sustaining country knowledge, and in the later phases of crisis, where the focus moves from short-term liquidity to longer-term restructuring and development.

In less-affected countries, motivation for Bank engagement could be more transparent, and lending instruments could be adjusted to these objectives. In such countries, the Bank's objectives have reflected some combination of the following: providing confidence to markets to aid stabilization, reinforcing countries' ability to undertake countercyclical spending; or using crisis-period lending as a vehicle to support medium-term engagement and reform. In the absence of severe crisis effects, the most important objectives were primarily countercyclical financing or providing signals to stabilize domestic and international markets, recognizing the contribution of such support toward the protection of gains achieved in long-term development. Such motives could be transparently recognized as worthwhile without having to present reforms unrelated to the crisis as justification for a crisis-related operation. As the preceding analyses of fiscal management and financial sector support both suggest, if medium-term reform engagement is the objective, crisis lending may not permit the depth of engagement to build a solid forward-looking program of reform.

For loans to less-affected countries that address countercyclical fiscal support, especially countries that normally enjoy good market access, precautionary support or short-term market stabilization through a countercyclical support facility, rather than through the regular DPL instrument, could be considered. Such a facility would not necessarily be tied to specific previously achieved sector reforms but would be linked instead to the maintenance of good performance in these areas—similar to the present IBRD DDO, and also resembling the IMF's Flexible/Precautionary Credit Lines. The policy content of lending from a countercyclical support facility would need to be limited. Maintaining a sound macroeconomic, fiscal, and financial framework would merit special consideration, as well as an explicit commitment to preserving key social expenditures and infrastructure investments to fiscally affordable levels during the crisis. If support is focused on a countercyclical stimulus, ensuring that the design of a stimulus package is fiscally prudent, with appropriate exit points built into it, would also merit attention.

Lending Instruments and Financial Terms

Regarding the financial terms, provided borrowers normally have good market access to funds, crisis lending in extraordinary amounts outside the agreed lending program could have a shorter repayment period and carry a surcharge or premium. Loans of a shorter maturity than regular DPLs could be considered and need not be restricted to countries with an ongoing IMF program, provided countries have sound basic macroeconomic, fiscal, and financial indicators. This would in effect be similar in terms to the ADB Countercyclical Support Facility and, to a lesser degree, to the IDB's Liquidity Program for Growth Sustainability.

The IBRD Special Development Policy Loan has these rates and terms, but one key difference would be that the requirement to have a disbursing IMF-supported program in place would be waived. Such a countercyclical support facility would have the benefit of more rapid repayment, which would free headroom in the lending program for longer-term development financing or future crises. Moral hazard arguments suggest that it would be appropriate to make crisis lending more costly, to avoid excessive uptake by countries not in severe need. The low cost of IBRD lending may have been one reason for its relatively high disbursements. Countries could also be encouraged to use the DDOs for precautionary support, especially those with reasonably solid fiscal and financial positions. Finally, IBRD's Board and management should consider ways to increase the responsiveness of its adjustments in its lending terms during periods of crisis, while taking into account diverse client needs.

Role Relative to Partners

Crisis engagement strategy also requires careful consideration of the role of the Bank relative to its partners during the acute phase of crisis as well as during recovery. As the role and scope of other IFIs in crisis situations have evolved, so can the future strategy of the Bank. The Bank's contributions to fiscal stimuli are relatively small. Some countries may find Bank financing attractive for other reasons—quality of relations with other IFIs, concern about market reaction to an IMF program, attractive lending terms, regulatory arbitrage, or restrictions against independent central banks' support to governments, and so forth. Yet IMF conditionality has been modernized, and direct fiscal support has become a more frequent feature of IMF assistance. A clearer understanding on the respective roles of the institutions in crisis-related fiscal support is desirable. Both in terms of the content of the programs of the Bank and other MDBs and IFIs and in terms of their effective cost, greater coordination would be desirable to avoid arbitrage on conditionality or borrowing costs.

Financial Sector—Lines of Credit

In general, new FILs are unlikely to be suitable as a crisis instrument, and IEG suggests caution if they are used for this purpose. Many FILs made in this past crisis did not disburse to the firms most affected or quickly enough to be of much help in crisis recovery, although loans to experienced institutions, repeat loans, and loans to exporters may have provided timely support to affected segments. Some loans, especially FILs to new entities and FILs for infrastructure, appear particularly unsuited to scale up for crisis. New FIL designs that help the Bank group absorb crisis-related risk can also be considered. A shortage of funds is not the only reason for credit contraction in a crisis; increased risk aversion on the part of the lenders and lack of demand and risk aversion on the part of the borrowers also slow credit flows. The main focus of crisis-related FILs should be on inducing banks to continue funding solvent clients.

The Bank Group—both the World Bank and IFC—would benefit from more attention to the operational design and pricing of FILs. Although most Bank FILs appear to be adhering broadly to Bank guidelines regarding lines of credit, for example, regarding vetting intermediaries, this is less clear regarding consultations with and first refusal to IFC or with on-lending terms. Rates to end borrowers may be low cost and not necessarily in the context of strengthening private lending. There is little basis for comparing IFC- and Bank-originated on-lending in FILs. And attention to process simplifications in line-of-credit operations would be helpful, especially between the IFC and the Bank, in areas such as safeguards.

Better Private Sector Support through IFC and MIGA

IFC could reexamine its methods of assessing potential risk to its own portfolio from crises, weighing this against potential benefits. IFC considerably overestimated potential portfolio deterioration caused by the crisis; that overestimation was one factor behind its cautious investment decisions. In part, the results were attributable to simple methodology and use of historical portfolio composition. In the future, it would be desirable for IFC to conduct more granular, transaction-by-transaction stress tests on the current portfolio to assess the impact of a crisis on IFC's investments.

For better crisis preparedness, IFC could consider relying more on existing arrangements than on establishing new structures as the crisis unfolds. In this context, an effort could be made to refine and preserve the new crisis response structures, institutionalizing some of the newly established platforms as permanent contingent arrangements that can be

reactivated or ramped up in future turbulent financial situations. Launching new platforms during a crisis is inevitably time consuming. The most successful initiative, the Global Trade Finance Program, began operating in the fall of 2005, and the Global Trade Liquidity Program, an equally successful platform, was built on the experience, skill base, and contacts developed through the Global Trade Finance Program.

MIGA could further emphasize its business development and diversify the geographic concentration of its assets. MIGA would be advised to revamp its business development function to reverse the current stagnation in guarantee issuance and enable the agency to consistently meet or exceed its business volume, development effectiveness, and strategic priority goals.

A Knowledge Base and Continuous Engagement

Maintaining a strong knowledge base is a prerequisite for effective crisis intervention, whether in public finance or in the financial sector. A steady flow of diagnostic work, regardless of lending volume, is important for effective crisis-related support. Especially when operations are planned during the crisis, it is important to have solid prior engagement in the specific areas in which an operation is undertaken. The absence of such engagement can seriously limit the effective design of operations at a time when new diagnostic work is not possible. Prior AAA in both the fiscal and financial sectors was found to be of value in informing the design of effective crisis response operations.

An appropriate balance can usefully be sought in AAA between longer-term development issues and short-term risk and vulnerability assessments. In the financial sector, there is a trade-off between issues of depth/access and risk, and in the fiscal areas, between knowledge of short-term fiscal vulnerability and longer-term strengthening of public financial management. The Bank could also consider following up on work initiated during the crisis and protect against loss of reform momentum and knowledge.

Increasing the Effectiveness of Bank Support to Social Protection during Crises

The Bank can enhance the social protection response during crises by supporting enhanced crisis preparedness before outbreaks of crisis a number of ways. These include timely data collection for identifying crisis-affected groups; ongoing social protection programs and funding mechanisms that can be scaled up or down to deal with shocks; having the systems and the capacity to put in place temporary activation programs; and, finally, using favorable economic cycles to build up a strong fiscal capacity for crises.

These crisis readiness lessons were also highlighted in IEG's evaluation of social safety nets (IEG 2011b). To ensure that the Bank's response has an impact on mitigating crisis shocks on affected households, interventions need to target benefits and monitor their impact specifically for those groups that were especially hit by the crisis.

Automatic stabilizers that respond to shocks are needed to address situations of high informality. With unemployment insurance covering only some formal sector workers and cash assistance providing for the poor, informal sector and rural workers easily fall between the cracks. Income support programs linked to work or training could potentially fill this gap, but they are rare, and national-level coverage is generally too low to fully respond to macro crises. New public works or income-support programs served as temporary measures where crisis-affected groups could not be absorbed by permanent social protection mechanisms, but only in a few countries (for example, in El Salvador, Latvia, and Mexico).

Priorities for Action

The immediate effects of the global economic crisis of 2008–09 are past for most of the Bank Group's client countries. Nevertheless, the possibility of a lingering recovery, or of a double-dip recession, remains. The need to provide prolonged support in the context of a high level of prevailing uncertainty is a distinct possibility. Now is good time to address fundamental questions that could improve future crisis preparedness.

A clear priority would be for Bank management to prepare, and the Board to endorse, a roadmap for crisis engagement that would include a systemic analysis of stress factors and a decision-making process that would blend country-level responses within a global strategy, to apply scarce resources where they are most effective. In severely affected countries, such a strategy could focus notably on partnerships and instruments. Such a roadmap could usefully articulate the Bank's role in wider IFI partnerships and the extent to which common targets are to be relied on; broad divisions of roles and responsibilities for each phase; options for accelerating loan processing times; the use of a forward-looking programmatic framework for effective intervention; and policies toward IBRD graduates during crisis.

In parallel, the roadmap could also articulate the rationale, modalities, and instruments for crisis lending to less-affected countries. The extent to which lending objectives in less-affected countries during crises can take the form of countercyclical fiscal support could be spelled out, as well as the extent to which stabilization to counteract

market uncertainty is a recognized goal for the Bank to pursue, recognizing the contribution of such support toward preserving longer-term development achievements, in addition to traditional medium-term sector development. In these less-affected countries, where the Bank could intervene in the absence of the IMF or other IFI and MDB consortia, such motives could be transparently accepted without having to present reforms unrelated to the crisis as justification for a crisis-related operation. Provisions for such loans could be incorporated in the Bank's lending guidelines. Such financing would not necessarily be tied to specific previously achieved sector reforms but instead to the maintenance of good performance—similar to the IBRD DDO. Maintaining a sound macroeconomic, fiscal, and financial framework would merit special consideration, including commitments to preserving key fiscal and financial targets appropriate to the crisis.

As part of the roadmap preparation exercise, a review of the Bank's financial products would be useful to enable more effective crisis support while maintaining the Bank's financial capacity to respond to future crises. Elements of such a review would include flexibility for price adjustment on standard loan products during crises, as well as explicitly countercyclical loans with premiums in terms of spreads and/or shorter maturities, for countries with sound fundamentals that normally enjoy good access to markets. The IBRD Special Development Policy Loan already has these features, but one key difference would be that the requirement to have a disbursing IMF program in place would not apply. Such a shorter maturity, countercyclical support facility would have the benefit of more rapid repayment and thus preserve headroom for longer-term development financing or response to future crises.

In recognition of the value of prior country knowledge and engagement, IEG suggests that the Bank consider formalizing commitments to maintain an adequate knowledge base in countries to maintain crisis readiness. With regard to economic policy and financial sector work, a commitment could be made to undertake core diagnostic work in each client country on an ongoing basis, regardless of the lending program. Maintaining a strong knowledge base is an important prerequisite for effective crisis intervention, which in turn calls for striking an appropriate balance be-

tween longer-term development issues and short-term measures of risk and vulnerability.

The Bank could also affirm its commitment to progress toward the adoption of a system-wide approach to social protection and risk management—beyond social safety nets—to ensure that data and programs are available to cope with crises. Appropriate crisis response requires identifying dominant household transmission channels and groups of people affected, recognizing the need for more flexible risk management programs in countries with high informality. Between unemployment insurance reaching a small number of formal workers and cash transfer programs for the structurally poor, there is a “missing middle” of programs that can support the transient and near-poor. The Bank's forthcoming social protection strategy can appropriately emphasize the importance of developing the “nuts and bolts” of social protection programs and of building country systems for greater future crisis preparedness.

Crises present both challenges and opportunities for impact; taking advantage of the opportunities for impact is fully consistent with a countercyclical role for IFC in time of crisis. Within available resources and prudent risk management, IFC should be willing to take on more risks in line with its countercyclical response.

IFC could also consider formalizing crisis arrangements rather than establishing new structures in a crisis. Institutionalizing some of the successful newly established platforms developed in response to this crisis would ensure that mechanisms were tried and tested for prompt deployment during future crisis conditions. An effort should be made to institutionalize these platforms as permanent contingent arrangements that can be reactivated in the event of financial turbulence.

Finally, there is a need for IFC to reassess and refine the methodology for stress testing credit risks. Relying on historical macroeconomic data based on extreme events, IFC considerably overestimated the potential deterioration in its portfolio, which contributed to its cautious investment decisions. In the future, it would be desirable for IFC to conduct far more granular stress tests, reflecting a more comprehensive methodology that reflects the current portfolio.

Appendixes

APPENDIX A

Crisis Indicators and Infrastructure Lending

TABLE A.1 Composite Crisis Indicators (Case Study Countries)

Country	% Change in total commitments (FY05–07 vs FY09–FY10)	% Change in total commitments as share of GDP (FY05–07 vs FY09–FY10)	% Change in share of commitments in total Bank commitments (FY05–07 vs FY09–FY10)	Crisis severity	Composite score (principal factor score)	Composite score (rank averages)
Ukraine	141	0.35	0.10	High	–2.75	10.60
Latvia		0.99	0.40	High	–2.89	15.00
Russian Federation	–100	–0.01	–0.61	High	–1.57	16.90
Montenegro	88	0.43	–0.01	High		21.14
Mongolia	23	0.23	–0.06	High	–1.77	22.33
Kazakhstan	2092	1.89	2.70	High	–1.44	23.90
Romania	–54	–0.19	–1.53	High	–1.40	25.11
Venezuela, Republic	–100	0.00	–0.01	High	–1.87	27.00
Armenia	102	1.03	–0.02	High	–1.79	29.75
Bulgaria	57	0.29	–0.21	High	–1.13	29.90
Serbia	158	0.64	0.09	High	#REF!	31.10
Seychelles		0.47	0.01	High	–1.56	33.50
Antigua and Barbuda		0.00	0.00	High	–1.32	33.63
Georgia	423	2.29	0.25	High	–2.00	33.63
Belarus	1199	0.53	0.34	High	–0.54	35.75
Bosnia and Herz	160	0.65	0.04	High		37.13
Croatia	10	0.06	–0.69	High	–0.63	37.22
Turkey	69	0.19	–1.47	High	–0.59	37.50
Jamaica	1595	1.30	0.27	High	–0.29	38.00
Tajikistan	35	0.46	–0.06	High		38.00
Moldova	49	0.52	–0.05	High	–1.54	39.38
São Tomé and Príncipe	23	0.30	0.00	High		40.29
Pakistan	–14	–0.12	–2.84	High	–0.56	41.80
Solomon Islands		1.08	0.01	High	–0.63	42.75
Slovak Republic	–100	0.00	–0.01	High		44.25
Fiji		0.00	0.00	High	–0.67	44.38
Maldives	–28	–0.38	–0.03	High	–0.90	44.38
Macedonia, FYR	–29	–0.27	–0.18	High	–0.39	44.63
South Africa	93875	0.71	3.53	High	–0.31	45.10
Hungary	16859	0.58	1.31	High	–0.17	46.70
Mexico	487	0.43	5.75	High	–0.35	47.00
Mauritania	–49	–0.58	–0.09	High		47.17
Argentina	23	0.11	–1.87	High	–0.10	47.90
Chile	–67	–0.02	–0.18	High	–0.22	48.80
Kyrgyz Republic	–12	–0.16	–0.10	High		50.50

	Forecast vs. actual GDP growth	Foreign exchange rate	Foreign reserves	Stock market returns	EMBI spread	Private credit growth	Deposit growth	Export growth	Domestic investment	Private consumption
	2	3	37	1	1	21	7	25	4	5
	3	49	16	9		4	5	40	5	4
	5	9	41	14	9	22	18	13	21	17
	12	58				1	1	55	1	20
	17	28	14	18		9	6	27	12	70
	45	47	42	7	17	2	8	5	41	25
	10	15	64	4		15	27	70	8	13
	38	118	17	39	11	3	3	11	14	16
	1	43	26			47	52	34	2	33
	15	75	56	2	3	51	16	38	7	36
	20	27	24	3	12	50	15	87	31	42
	75	2	4			25	23	118	19	2
	7	118	9			54	49	14	15	3
	6	97	44			5	4	43	10	60
	39	33	11			58	31	22	62	30
	27	73	25	5		45		35	18	69
	16	50	27	8		44	46	62	51	31
	21	16	69	19	34	24	60	58	27	47
	43	34	23	44	35	55	62	10	55	19
	74	41					2	44	58	9
	4	95	54			34	17	82	6	23
	99	35				13	10	33	25	67
	78	24	3	17	2	30	22	97	45	100
	57	90	20			11	21	36	64	43
	14	92	1	33			87	39	23	65
	56	19	8			37	12	77	88	58
	35	118	22			7	58	68	3	44
	46	72	19			59	29	20	57	55
	48	10	97	35	5	29	37	65	86	39
	24	23	74	15	7	76	70	61	76	41
	26	29	83	32	28	35	74	75	54	34
	34	104	12					6	109	18
	73	48	82	20	8	46	55	69	30	48
	42	14	121	40	25	56	48	46	33	63
	62	45	75					47	47	27

(Table continues on the following page.)

TABLE A.1 Composite Crisis Indicators (Case Study Countries)—continued

Country	% Change in total commitments (FY05–07 vs FY09–FY10)	% Change in total commitments as share of GDP (FY05–07 vs FY09–FY10)	% Change in share of commitments in total Bank commitments (FY05–07 vs FY09–FY10)	Crisis severity	Composite score (principal factor score)	Composite score (rank averages)
Congo, Dem. Rep. of	42	1.42	20.43	High	20.69	50.75
Barbados		0.45	0.03	High	−0.37	51.50
Sudan	−24	−0.09	−0.37	High	−0.82	51.75
Namibia	−9	0.00	−0.01	High	−0.25	51.78
Colombia	50	0.24	−1.12	High	−0.21	52.10
Zambia	−24	−0.17	−0.19	High	0.15	52.25
Trinidad and Tobago		0.00	0.00	High	−0.17	52.67
Honduras	−32	−0.22	−0.22	High	−0.67	52.75
Samoa	317	1.90	0.01	High	−0.29	53.13
Ecuador	−100	−0.29	−0.50	Medium	−0.02	53.90
St. Lucia	16	0.11	−0.01	Medium	−0.69	54.50
Gabon	−100	−0.17	−0.07	Medium	−0.14	54.78
Iran	−100	−0.08	−0.78	Medium		57.57
Costa Rica	1111	1.13	0.43	Medium	−0.26	57.67
Ghana	49	1.13	−0.40	Medium		57.86
Malaysia		0.00	0.00	Medium	0.08	58.10
Cambodia	−21	−0.07	−0.06	Medium	−0.71	58.25
St. Vincent and Grenadines	−100	−0.47	−0.01	Medium	−0.29	58.63
Poland	738	0.48	2.69	Medium	0.37	59.00
El Salvador	191	1.22	0.16	Medium	−0.21	59.22
Central African Rep.	−10	−0.24	−0.09	Medium	0.11	59.75
Brazil	194	0.22	1.71	Medium	0.19	60.00
Sri Lanka	68	0.35	−0.15	Medium	0.05	60.40
Peru	125	0.52	0.02	Medium	0.17	61.10
Vietnam	125	1.49	0.05	Medium		61.11
Albania	−31	−0.20	−0.17	Medium	−0.16	62.88
Botswana		2.73	0.58	Medium	−0.36	62.89
Madagascar	−78	−2.55	−0.73	Medium	−0.29	63.13
India	115	0.32	−0.34	Medium	0.23	64.11
Angola	107	0.14	−0.02	Medium	−0.02	64.75
Papua New Guinea	1	0.00	−0.03	Medium	−0.17	65.25
Liberia	111	4.84	−0.01	Medium		65.86
Egypt, Arab Rep. of	311	1.05	1.32	Medium	0.24	66.20
Korea, Rep. of		0.00	0.00	Medium	0.59	66.20
Dominican Repub	233	0.37	0.12	Medium	0.17	66.22
Morocco	16	0.09	−0.74	Medium	0.28	66.67
St. Kitts and Nevis		0.00	0.00	Medium	−0.24	67.38
Kenya	194	1.47	0.25	Medium	0.36	68.33
Lesotho	97	1.28	−0.01	Medium		68.43
Ethiopia	102	3.45	−0.20	Medium		68.57
Guatemala	167	0.77	0.12	Medium	0.32	70.75

	Forecast vs. actual GDP growth	Foreign exchange rate	Foreign reserves	Stock market returns	EMBI spread	Private credit growth	Deposit growth	Export growth	Domestic investment	Private consumption
	25	4	2			96	25	81	96	77
	31	118	40			53	33	29	63	45
	29	54	7			6	19	66	98	135
	52	10	113	30		42	35	37	44	103
	71	26	110	38	22	39	32	76	43	64
	126	8	39			64	85	9	73	14
	19	113	119		15	32	83	4	37	52
	40	116	79			28	24	73	13	49
	23	53	35			27	44	50	134	59
	70	118	15	43	16	43	59	42	67	66
	18	118	62			19	63	119	29	8
	53	59	125		32	23	26	19	80	76
	72	99				20	28	21	61	102
	55	80	43	26		68	30	100	42	75
	79	5			29	71	67		28	126
	36	87	36	34	19	79	91	78	71	50
	22	108	115			41	20	109	22	29
	44	118	29			67	79	103	17	12
	90	6	48	16	18	115	90	49	68	90
	37	117	86		14	61	57	99	40	22
	82	59	49			69	61	26	46	86
	68	22	93	31	33	63	76	63	53	98
	98	103	6	28	31	26	72	94	78	68
	54	89	80	10	23	106	81	53	35	80
	101	86	18	6	6	65		98	99	71
	89	46	90			10	34	60	66	108
	32	30	57	36		98	11	54	125	123
	13	81	92			77	99	45	11	87
	96	39	60	22		40	64	92	91	73
	8	82	100			57	101	1	24	145
	124	106	85			48	14	24	114	7
	50	79	111			97	73		50	1
	94	111	84	13	10	60	41	67	83	99
	64	7	46	29	38	80	125	91	108	74
	128	96	38		4	101	43	104	26	56
	118	83	63	42		91	56	48	48	51
	30	118	55			92	53	106	70	15
	112	44	53	21		89	69	93	49	85
	59	10				52	106	80	126	46
	136	18	13				42	90	92	89
	66	102	106			62	97	16	39	78

(Table continues on the following page.)

TABLE A.1 Composite Crisis Indicators (Case Study Countries)—continued

Country	% Change in total commitments (FY05–07 vs FY09–FY10)	% Change in total commitments as share of GDP (FY05–07 vs FY09–FY10)	% Change in share of commitments in total Bank commitments (FY05–07 vs FY09–FY10)	Crisis severity	Composite score (principal factor score)	Composite score (rank averages)
Nigeria	164	0.59	0.40	Medium	0.71	70.78
Swaziland		0.00	0.00	Medium		71.57
Senegal	70	0.96	–0.13	Medium	0.27	72.38
Thailand		0.02	0.07	Medium	0.21	72.44
Tanzania	50	1.71	–0.70	Medium	0.00	72.50
Jordan	367	1.14	0.22	Medium	0.25	72.56
Azerbaijan	–5	–0.05	–0.53	Medium	–0.06	73.25
Grenada	43	0.34	–0.01	Medium	–0.09	74.25
Paraguay	104	0.44	–0.01	Medium	0.41	74.88
Panama	297	0.63	0.12	Medium	0.21	74.89
Cape Verde	–20	–0.31	–0.05	Medium		75.57
Indonesia	225	0.70	2.17	Medium	0.75	75.60
Tunisia	74	0.27	–0.11	Medium	0.70	76.00
Chad	–62	–0.26	–0.09	Low	0.52	76.50
Equatorial Guinea		0.00	0.00	Low	2.00	76.50
Congo, Republic	–33	–0.15	–0.10	Low	0.44	77.50
Mauritius	1090	1.61	0.18	Low	0.65	77.89
Philippines	58	0.16	–0.39	Low	0.70	79.30
Cameroon	36	0.11	–0.09	Low	0.88	79.50
Dominica	–100	–0.15	0.00	Low	0.34	79.75
Yemen, Republic of	162	0.68	0.06	Low	0.29	79.75
Libya		0.00	0.00	Low	0.45	80.63
Guinea-Bissau	34	0.49	–0.01	Low	0.37	80.75
Nicaragua	34	0.32	–0.08	Low	0.21	81.25
Belize		0.00	0.00	Low	0.64	82.78
Burkina Faso	56	1.26	–0.17	Low	0.47	82.88
Burundi	67	4.73	–0.07	Low	0.63	84.25
Rwanda	114	3.12	–0.01	Low		84.50
Tonga	716	0.80	0.00	Low	0.26	84.50
Afghanistan	–19	–0.72	–0.80	Low		85.29
Algeria		0.00	0.00	Low	0.91	86.00
Benin	–25	–0.65	–0.35	Low		86.00
Myanmar		0.00	0.00	Low		86.71
Suriname		0.00	0.00	Low	0.30	87.75
Comoros	179	0.71	0.00	Low	0.84	87.88
Syrian Arab Republic		0.00	0.00	Low	1.42	88.25
Bhutan	–19	–0.39	–0.05	Low	1.11	88.50
Uruguay	71	0.44	–0.12	Low	1.15	88.78
Vanuatu		0.00	0.00	Low	0.59	89.13
Djibouti	–24	–0.33	–0.03	Low	0.57	90.13
Gambia, The	233	2.64	0.02	Low	0.99	92.00

	Forecast vs. actual GDP growth	Foreign exchange rate	Foreign reserves	Stock market returns	EMBI spread	Private credit growth	Deposit growth	Export growth	Domestic investment	Private consumption
	108	32	34	12		99	103	7	115	127
	116	10	78			18	50		113	116
	69	59	28			84	86	105	60	88
	33	94	87	23		86	102	83	65	79
	100	85	77			33	38	117	38	92
	76	115	108	37		31	68	86	97	35
	41	137	101			12	9	2	138	146
	11	118	58			85	96	112	74	40
	28	93	107			119	118	31	75	28
	63	118	114		27	74	65	96	34	83
	60	57	59			112	47		112	82
	103	31	72	24	20	93	109	79	106	119
	88	52	95	46	13	94	95	59	122	96
	65	59	10			113	45	52	144	124
	131	59	30			129	126	3	102	32
	85	59	124			127	13	12	87	113
	77	42	61	25		105	111	85	111	84
	58	78	99	27	30	103	115	84	104	95
	91	59	71			110	82	51	146	26
	81	118	52			83	89	108	69	38
	61	109	66			36	71	74	89	132
	9	101	102			124	127	41	84	57
	125	59	31			17	54	126	129	105
	49	88	96			16	84	101	119	97
	95	118	126		24	75	80	89	77	61
	86	59	21			73	98	124	85	117
	97	55	112			107	75	23	94	111
	106	107	70					64	59	101
	102	77	67			38	39	125	118	110
	140	105				8	51	28	131	134
	92	98	117			49	36	8	145	143
	84	59	51			78	108		141	81
	133	100				95	124	57	36	62
	87	118	98			82	94	122	95	6
	109	56	47			123	112	120	82	54
	117	118	91			81	110	18	147	24
	123	37	81			70	104	17	143	133
	110	84	120		21	117	128	95	52	72
	127	51	68			121	66	128	16	136
	93	118	109			122	120	113	9	37
	114	21	50			108	88	130	132	93

(Table continues on the following page.)

TABLE A.1 Composite Crisis Indicators (Case Study Countries)—continued

Country	% Change in total commitments (FY05–07 vs FY09–FY10)	% Change in total commitments as share of GDP (FY05–07 vs FY09–FY10)	% Change in share of commitments in total Bank commitments (FY05–07 vs FY09–FY10)	Crisis severity	Composite score (principal factor score)	Composite score (rank averages)
Niger	7	0.13	–0.14	Low	0.64	93.00
Mozambique	28	0.74	–0.35	Low	1.16	93.63
Sierra Leone	–11	–0.56	–0.18	Low	0.88	95.00
Bangladesh	108	0.78	–0.12	Low	0.77	95.78
China	35	0.02	–2.32	Low	1.37	95.80
Guyana	–100	–0.64	–0.04	Low	0.69	96.13
Côte d'Ivoire		1.00	0.34	Low	0.82	97.50
Mali	34	0.77	–0.23	Low	0.90	97.50
Togo		1.99	0.09	Low		98.57
Uganda	9	0.32	–0.78	Low	0.94	99.13
Bolivia	–39	–0.08	–0.07	Low	1.02	100.50
Malawi	24	0.59	–0.14	Low	1.97	102.00
Eritrea	–100	–2.04	–0.10	Low		103.29
Iraq	–43	–0.24	–0.78	Low		105.13
Nepal	210	1.81	0.13	Low		106.71
Lebanon	139	0.10	0.01	Low	1.63	106.80
Haiti	21	0.29	–0.13	Low	1.17	113.13
Guinea	154	1.25	0.02			
Kiribati	–100	–0.52	0.00			
Kosovo	–22	–0.07	–0.04			
Lao People's De	60	0.82	–0.06			
Marshall Islands						
Micronesia, Fed. Sts.						
Palau						
Somalia			0.01			
Timor-Leste	–66	–2.04	–0.04			
Turkmenistan						
Uzbekistan	373	0.38	0.09			
West Bank and G	1		–0.11			
Zimbabwe		0.07	0.01			

Sources: IMF (2008, 2010); Bloomberg; Datastream; UN National Accounts Statistics. Data on World Bank lending comes from internal databases.

Note: Rankings are based on all eligible Bank clients in FY09–10 (147). Ranks are in descending order of severity (that is, a rank of 1 implies most severe stress/crisis). For definitions and details, see appendix B, section 2. EMBI = Emerging market bond index; GDP = gross domestic product.

	Forecast vs. actual GDP growth	Foreign exchange rate	Foreign reserves	Stock market returns	EMBI spread	Private credit growth	Deposit growth	Export growth	Domestic investment	Private consumption
	47	59	105			90	117	129	79	118
	120	40	76			126	123	72	101	91
	80	36	89			125	93	88	110	139
	115	114	88	45		88	77	107	107	121
	122	138	116	11	26	116	122	56	136	115
	105	112	103			109	100	102	127	11
	107	74	32			102	78	116	133	138
	119	59	33			100	107	114	128	120
	113	59	65			72	114		142	125
	129	25	73			104	105	127	100	130
	104	139	123			87	119	30	93	109
	134	110	5			128	130	123	72	114
	135	118	94			66	40		130	140
		136	118		36	118	131	15	140	147
	130	38				120	129	115	103	112
	137	135	122	41	37	114	113	111	121	137
	111	91	104			111	121	121	124	122
	51	17						32	135	10
	83	20							56	21
									81	53
	121						92	71	20	141
									116	94
		118	45						120	107
									117	128
									123	106
	138					14	116		90	144
	67								32	142
	132	76							105	104
								110	139	129
	139	1							137	131

Infrastructure Lending during the Crisis

This appendix briefly describes the World Bank's new lending for infrastructure during the period of the crisis. It also points out that much of that lending was not related to the crisis, and much had been under preparation before the crisis. Most crisis-related infrastructure lending was concentrated in a handful of large loans approved late during the crisis period.

Infrastructure lending projects included were approved during FY09–10, with an infrastructure-related sector content of at least 25 percent—a database of 294 projects.¹

Infrastructure Crisis Projects— Portfolio Overview

There was a large increase in the numbers of new infrastructure lending operations during the crisis, and a much greater increase in infrastructure commitments by value, reflecting a large increase in average project size. The number of operations with infrastructure content rose from an annual average of 115 in FY05–07 to 147 in FY09–10. Annual new commitments grew to \$23 billion in FY09–10, compared with \$10 billion committed on average, in FY05–07. The surge in commitments came from a near doubling of average project size, from \$87 million in FY05–07, to \$157 million in FY09–10. However, the share of projects with some infrastructure content approved during the crisis period increased very slightly, both in number, from 38 to 41 percent, and in value, from 42 to 44 percent of all commitments approved during the crisis period.

As in other sectors, International Bank for Reconstruction and Development (IBRD) financing for infrastructure during the crisis increased more rapidly than financing from the International Development Association (IDA).

IBRD lending increased to 74 percent of total commitments in infrastructure, up from 61 percent before the crisis (table A.2). But unlike other sectors, there was a difference in the regional lending pattern. About half of infrastructure commitments during the crisis were allocated to the Latin America and the Caribbean and Africa Regions—reflecting largely a single loan to South Africa. Compared with the pre-crisis period, there was a decline in the share of the Europe and Central Asia and East Asia and Pacific Regions.

Crisis Relevance of Infrastructure Lending— All Projects

About half (45 percent) of the infrastructure projects approved during the crisis were under preparation before the crisis. Projects in other sectors approved during the crisis had a somewhat shorter gestation period—39 percent had been initiated before the crisis (table A.3). However, despite their longer gestation, their preparation time was reduced somewhat during the crisis, by around 7 percent compared to the pre-crisis period. Projects in other sectors experienced a greater reduction in preparation time, by 12 percent on average.

The bulk of infrastructure crisis lending was clustered fairly late in the crisis period. More than a quarter of the infrastructure projects and commitments approved during the crisis period were approved in the last quarter of FY10. Fifty-nine infrastructure projects, amounting to \$10 billion out of a total crisis period commitment of around \$30 billion, were approved in the last quarter of FY09.

The use of additional/supplemental financing increased during the crisis period. Both the number and commitment amounts of such projects had been increasing since FY05, but they surged further during the crisis. Of the 294 infrastructure projects approved in the crisis, 86 projects, or 29

TABLE A.2 Lending Commitments in Infrastructure during the Crisis and Before the Crisis

Fiscal year	IBRD		IDA		Total
	US\$ billion	% of total	US\$ billion	% of total	
2005	5.0	61	3.3	39	8.3
2006	6.5	65	3.5	35	10.0
2007	6.8	59	4.7	41	11.5
2008	8.6	61	5.6	39	14.2
2009	14.4	72	5.5	28	19.8
2010	20.3	76	6.5	24	26.7
Annual average before crisis	6.1	61	3.8	39	9.9
Annual average during crisis	17.3	74	6.0	26	23.3
Change (%)	184		56		135

Source: World Bank data.

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

TABLE A.3 Initiation of Bank Projects Approved in FY09–10: Infrastructure and Other Sectors					
	Infrastructure projects (number)	Infrastructure projects (%)	Rest of projects (number)	Rest of projects (%)	Total
Before the crisis					
> 12 months before	59	20	48	12	107
6–12 months before	41	14	45	11	86
3–6 months before	21	7	23	6	44
3 months before	12	4	43	10	55
		45		39	
After beginning of crisis					
3 months after	38	13	48	12	86
3–6 months after	30	10	54	13	84
6–12 months after	38	13	76	18	114
> 12 months after	54	18	80	19	134
Total	293	100	417	100	710
<i>Source:</i> World Bank data.					
<i>Note:</i> The cut-off date for the beginning of the crisis is September 1, 2008. The planning stage is considered to start at the Concept Note Date. Infrastructure projects are those with at least 25 percent of commitments assigned to the infrastructure sector. One crisis infrastructure project did not have a Concept Note Date.					

percent, were processed as additional financing, up from 18 percent in FY06–07. And 14 percent of FY09–10 commitments came from additional/supplemental infrastructure projects, up from 8 percent in FY06–07.

In FY05–07 infrastructure supplements were 8 percent of new commitments and 18 percent of projects, while during the crisis period additional financing was 14 percent and 29 percent of all commitments and projects, respectively. The volume and number of supplemental projects at least doubled.

Additional financing in the infrastructure portfolio during the crisis was more frequent than in the Bank's overall portfolio, but other sectors used it as or more extensively. Using the Sector Board classification,² about a third of the infrastructure projects approved in FY09–10 were additional financing. However, a few other sectors also had similar

shares of additional financing—health, agriculture, and social development.

Crisis Relevance—High Infrastructure Content Projects

Fewer than half of the projects with high infrastructure content were explicitly identified as crisis-related. Of the 294 infrastructure projects identified in the sample that had a 25 percent or higher infrastructure content, another subset was identified that had at least 50 percent or more infrastructure content. These 245 high-content infrastructure projects accounted for 83 percent of the initial sample. Based on appraisal documentation, these were classified according to the strength of reference to the crisis in the description of each project's justification. Three-quarters of the projects with high infrastructure content did not refer

TABLE A.4 Crisis References in Projects with High Infrastructure Content, FY09–10			
	Number of projects	Commitments	Disbursements as of 12/2010
Crisis-related	51	16,450	4,631
Not crisis	194	23,613	4,323
Total	245	40,063	8,954
Percent of total			
Crisis-related	21	41	52
Not crisis	79	59	48
Total	100	100	100
<i>Source:</i> World Bank data.			

to the crisis beyond the description of the context. Over half of commitments by value (59 percent) were from projects with no reference, or a low reference, to the global economic crisis.

However, crisis-related infrastructure projects disbursed faster. Six percent of projects with a high reference and 19 percent with a moderate reference to the global economic crisis disbursed more than 75 percent of their commitments within 3 months of approval, compared to half that share for projects with low or no reference to the crisis (table A.5). And 17 percent and 31 percent of projects with high or mod-

erate reference to the global economic crisis respectively disbursed more than 75 percent of their commitments within 12 months of approval.

Finally, crisis related infrastructure lending was highly concentrated, even more so than noncrisis lending. Seven countries accounted for 55 percent of all commitments in infrastructure during this period and 70 percent of crisis-related infrastructure commitments. And the five largest infrastructure projects approved in FY09–10 accounted for 24 percent of all infrastructure commitments and for 58 percent of crisis-related commitments in infrastructure.

TABLE A.5 Three-Month Disbursement Rates of Infrastructure Projects during the Crisis, FY09–10

Disbursement ratio	Crisis-related content				
	High	Medium	Low	Not crisis	Total
Number of projects					
<25%	31	13	59	130	233
25%–50%	2			2	4
>75%	2	3	2	1	8
Total	35	16	61	133	245
Share of total					
<25%	89%	81%	97%	98%	95%
25%–50%	6%	0%	0%	2%	2%
>75%	6%	19%	3%	1%	3%
Total	100%	100%	100%	100%	100%

Source: World Bank data.

TABLE A.6 Country Concentration of Infrastructure Lending during the Crisis, FY09–10			
Countries	Commitments (in US\$ million)	Number of projects	Disbursements as of 12/2010 (in US\$ million)
India	5,421	17	349
South Africa	3,750	1	371
China	3,214	19	245
Mexico	2,585	5	2,358
Brazil	2,558	16	342
Turkey	2,240	4	1,705
Kazakhstan	2,173	2	326
<i>7 countries</i>	<i>21,941</i>	<i>64</i>	<i>5,696</i>
<i>Percent of total</i>	<i>55</i>	<i>26</i>	<i>64</i>
Of which crisis related			
India	2,195	2	26
South Africa	3,750	1	371
China	800	4	2
Mexico	2,355	3	2,355
Brazil	490	2	49
Turkey	—	—	—
Kazakhstan	2,125	1	326
<i>7 countries</i>	<i>11,715</i>	<i>13</i>	<i>3,128</i>
<i>Percent of total crisis-related</i>	<i>71</i>	<i>25</i>	<i>68</i>
<i>Source: World Bank data.</i>			

TABLE A.7 Project Concentration of Infrastructure Lending during the Crisis, FY09–10					
Approval quarter	Country	Project ID	Project name	Commitments	Disbursements as of 12/2010
FY10-Q4	South Africa	P116410	Eskom Investment Support Project	3,750	371
FY09-Q4	Kazakhstan	P099270	South West Roads Project: Western Europe – Western China International Transit Corridor	2,125	326
FY10-Q2	Mexico	P115608	Framework for Green Growth Development Policy Loan	1,504	1,504
FY10-Q1	India	P102771	Financing Public-Private Partnerships in Infrastructure through Support to the India Infrastructure Finance Company Limited	1,195	3
FY10-Q1	India	P115566	Fifth Power System Development Project	1,000	23
Total 5 projects				9,574	2,226
Percent of all projects				24	25
Percent of total crisis-related projects				58	48
<i>Source: World Bank data.</i>					

APPENDIX B

Development Bank Support, Methodological Note, and Resource Allocation

1. IFI and Regional Development Bank Support

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)

Country name	World Bank				IFC				MIGA			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Afghanistan	312	222	236	243	0	0	80	9	39	1	0	0
Albania	57	64	83	0	2	13	79	1				
Algeria					4	16	57	1	0	4	0	0
Angola	51	87	0	153	0	54	98	23	7	0	0	0
Antigua and Barbuda					0	0	0	30				
Argentina	955	629	1,440	1,595	180	481	278	190				
Armenia	70	20	238	104	4	25	2	34				
Azerbaijan	224	1,267	183	242	13	28	47	18				
Bangladesh	447	1,506	342	865	9	44	98	128	39	0	0	0
Barbados	0	35	0	0	0	0	8	0				
Belarus	22	60	325	228	17	41	9	69				
Belize	0	0	0	15	0	0	0	1				
Benin	94	85	102	89	0	0	10	31	0	0	1	0
Bhutan	20	3	20	37	0	0	1	1				
Bolivia	52	40	30	0	17	30	12	18	7	0	0	0
Bosnia and Herzegovina	54	43	105	126	34	59	0	-6	6	1	48	0
Botswana	0	50	571	0	2	40	0	-6				
Brazil	1,082	3,516	2,774	3,792	413	945	582	1,141	66	0	33	0
Bulgaria	168	209	319	0	30	65	62	23	59	0	0	0
Burkina Faso	160	135	242	126	3	13	12	13	4	0	0	0
Burundi	50	120	129	83	0	0	3	0				
Cambodia	41	155	17	68	9	3	42	-33				
Cameroon	57	125	125	84	31	14	-6	37	1	0	0	0
Cape Verde	19	15	15	15	0	6	-1	0				
Central African Rep.	33	21	59	33	0	0	0	3	0	38	0	0
Chad	10	0	0	20	0	0	4	23				
Chile	42	30	3	0	22	98	142	58				
China	1,334	1,773	2,160	1,789	373	635	224	378	44	0	75	24

	IMF				ADB			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	40	0	0	0	217	314	333	352
	8	0	0	0				
	0	0	1,325	0				
	0	0	0	124				
	11	15	823	407	22	17	140	210
					106	215	75	27
					569	592	1,028	1,249
	0	0	3,501	0				
	3	15	14	113				
					28	105	39	22
	21	0	0	0				
	0	0	1,565	0				
	3	14	51	70				
	0	73	0	0				
					65	84	144	161
	9	0	0	0				
	18	13	39	0				
	12	0	0	0				
					1,459	1,750	1,955	1,578

(Table continues on the following page.)

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)—*continued*

Country name	IDB				AfDB				EBRD			
	2005-2007 ^a	2008	2009	2010 ^{**}	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Afghanistan												
Albania									67	130	83	100
Algeria					0	0	0	0				
Angola					8	0	8	0				
Antigua and Barbuda												
Argentina	1,729	1,186	1,601	1,204								
Armenia									75	76	119	71
Azerbaijan									214	119	225	78
Bangladesh												
Barbados	3	41	80	87								
Belarus									46	25	72	80
Belize	8	24	28	12								
Benin					18	18	15	28				
Bhutan												
Bolivia	95	78	191	225								
Bosnia and Herzegovina									172	366	155	252
Botswana					0	27	736	1				
Brazil	951	3,303	2,959	2,296								
Bulgaria									278	304	325	725
Burkina Faso					22	45	41	23				
Burundi					8	10	7	0				
Cambodia												
Cameroon					35	0	29	35				
Cape Verde					2	4	24	5				
Central African Rep.					2	7	13	0				
Chad					12	0	21	0				
Chile	124	581	67	78								
China												

	EIB				EU				Total			
	2005-2007 ^a	2008	2009	2010 ^{***}	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
					267	315	376		874	853	1,024	605
	38	0	18	67	61	100	114		233	307	378	168
	6	0	0	663	83	55	65		92	75	123	665
					43	54	20		110	195	1451	176
					1	0	5		1	0	5	154
	0	0	237	0	23	3	6		2,887	2,300	3,562	2,989
	0	0	0	7	35	43	101		217	197	1423	833
					19	34	29		575	1663	558	364
					154	116	137		1,218	2,259	1,605	2,242
					6	15	2		9	91	90	87
					14	16	17		98	142	3,924	376
					10	16	35		19	41	62	28
					86	207	102		202	325	245	262
					3	0	0		51	108	60	59
					40	33	62		232	181	295	243
	252	382	213	96	74	128	155		592	980	2,241	468
					26	0	91		28	117	1,398	-5
	170	294	0	557	19	28	24		2,701	8,086	6,372	7,787
	544	669	242	153	422	10	0		1,502	1,256	948	901
					104	500	84		297	707	430	232
					106	93	81		165	296	220	84
					29	20	10		143	262	214	195
					79	178	109		212	317	256	155
					20	29	16		42	54	55	19
					53	62	99		107	141	210	36
					117	99	128		152	99	152	43
					12	0	0		201	709	212	136
	436	0	166	663	25	114	30		3,673	4,272	4,610	4,432

(Table continues on the following page.)

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)—*continued*

Country name	World Bank				IFC				MIGA			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Colombia	737	2165	673	782	159	190	153	260				
Comoros	2	0	1	8								
Congo, Dem. Rep. of	270	400	177	590	27	6	10	55	0	26	4	0
Congo, Republic of	17	40	20	36	0	0	0	0				
Costa Rica	23	138	500	0	13	-8	-5	38	0	159	0	0
Cote d'Ivoire	40	435	218	140	0	0	2	16				
Croatia	329	245	141	333	82	66	56	-5	0	0	0	605
Djibouti	8	8	7	9	0	4	0	0	0	427	0	0
Dominica	0	0	0	0	0	0	0	0				
Dominican Repub	65	122	368	170	52	34	1	25	54	0	0	0
Ecuador	125	0	0	0	7	61	56	3	51	0	0	0
Egypt, Arab Rep. of	420	735	1,254	2,217	78	85	239	216				
El Salvador	120	0	620	80	17	0	10	-10	2	0	0	0
Equatorial Guinea												
Eritrea	8	30	0	0	0	0	0	0				
Ethiopia	509	666	1,300	658	0	55	0	5	0	0	0	10
Fiji					0	0	23	0				
Gabon	17	0	0	0	0	0	0	0				
Gambia, The	9	0	35	30	0	0	13	0				
Georgia	56	123	360	95	15	42	238	36				
Ghana	238	167	564	360	52	77	375	295	6	0	0	225
Grenada	1	4	3	8	0	0	0	0				
Guatemala	174	220	550	100	12	0	172	87				
Guinea	28	142	0	0	2	30	0	0	30	26	0	0
Guinea-Bissau	5	15	13	19	0	0	0	0				
Guyana	8	0	0	4	2	0	5	0				
Haiti	66	61	48	155	10	0	4	26				
Honduras	77	104	55	115	3	38	164	101				
Hungary	4	0	1,413	0	49	0	7	0	0	0	134	0
India	2,304	2,565	6,465	4,309	522	954	743	633				
Indonesia	1,300	2,013	3,801	2,910	192	152	144	155	0	0	0	0
Iran, Islamic Rep. of	115	0	0	0	3	0	0	0	64	0	0	0
Iraq	146	154	28	250	1	0	0	16	0	0	0	0
Jamaica	13	65	131	200	26	18	10	-10	40	0	0	0
Jordan	47	76	385	0	11	243	85	77	2	0	0	0
Kazakhstan	67	131	2,173	1,124	1	99	200	336	43	48	190	190
Kenya	191	0	470	701	35	107	64	47	7	88	0	0
Kiribati	1	0	0	0	0	0	2	-2				

	IMF				ADB			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	199	0	10,746	3,543				
	0	0	21	0				
	0	0	534	0				
	0	13	0	0				
	0	0	759	0				
	0	0	577	0				
	1	0	0	0				
	0	20	0	0				
	216	0	1,688	0				
	0	0	793	784				
	0	0	237	0				
					8	0	67	0
	39	0	0	0				
	7	0	10	7				
	0	754	416	0	8	110	229	423
	0	0	598	0				
	5	2	7	13				
	0	0	973	0				
	25	34	0	0				
	0	0	0	34				
	36	26	38	62				
	0	61	0	198				
	0	16,660	0	0				
					1,071	2,483	1,811	2,120
					952	1,085	2,184	785
	477	0	0	3,627				
	0	0	0	1,252				
					58	340	687	606
	-38	0	0	0				
					0	0	0	12

(Table continues on the following page.)

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)—*continued*

Country name	IDB				AfDB				EBRD			
	2005-2007 ^a	2008	2009	2010 ^{**}	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Colombia	664	1074	1347	698								
Comoros					0	1	11	0				
Congo, Dem. Rep. of					63	0	43	64				
Congo, Republic of					4	1	8	2				
Costa Rica	246	860	45	121								
Cote d'Ivoire					4	0	215	15				
Croatia									217	148	345	513
Djibouti					2	41	0	0				
Dominica												
Dominican Repub	106	40	992	373								
Ecuador	306	50	515	540								
Egypt, Arab Rep. of					233	213	52	308				
El Salvador	105	554	327	461								
Equatorial Guinea					0	45	0	0				
Eritrea					0	0	1	8				
Ethiopia					65	101	0	147				
Fiji												
Gabon					55	0	68	0				
Gambia, The					4	3	6	0				
Georgia									142	317	112	463
Ghana					53	122	78	73				
Grenada												
Guatemala	158	279	672	317								
Guinea					7	103	3	0				
Guinea-Bissau					2	1	9	1				
Guyana	50	33	35	39								
Haiti	101	0	0	320								
Honduras	95	111	71	364								
Hungary									81	118	811	236
India												
Indonesia												
Iran, Islamic Rep. of												
Iraq												
Jamaica	2	205	401	635								
Jordan												
Kazakhstan									473	634	608	886
Kenya					65	18	89	76				
Kiribati												

	EIB				EU				Total			
	2005-2007 ^a	2008	2009	2010 ^{***}	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	42	0	139	0	57	71	32		1,858	3,500	13,090	5,284
					16	6	42		18	7	75	9
					246	145	582		606	577	1,351	709
					48	27	11		70	81	39	38
					5	7	6		286	1,155	1,305	159
					83	70	96		127	505	1,108	171
	289	250	578	678	144	245	194		1,062	954	1,314	2,125
					15	12	2		25	511	9	9
					13	6	0		13	6	0	0
					60	14	11		552	211	3,061	568
	17	0	0	0	11	51	42		518	162	613	543
	418	406	170	1,203	163	224	195		1,312	1,664	1,910	3,944
					22	3	68		267	557	1,818	1,315
					4	2	0		4	47	0	0
					57	6	88		65	35	89	8
					275	496	141		848	1,318	1,678	820
					4	12	1		13	12	91	0
					12	2	5		124	2	73	0
					24	5	4		44	8	67	38
	0	0	0	232	49	228	210		269	1,573	1,566	1,249
					97	369	89		446	735	1,704	952
					12	2	7		19	8	17	21
					23	12	61		367	510	2,428	504
					56	37	7		146	372	11	0
					32	43	40		39	59	62	54
					32	42	32		93	75	72	43
					106	65	403		319	151	493	564
	8	0	0	0	19	102	3		202	416	293	777
	1,662	2,243	2,632	2,231	7	9,577	0		1,803	28,597	4,997	2,468
	0	221	139	0	157	163	25		4,055	6,386	9,183	7,062
	21	0	0	0	109	40	216		2,573	3,290	6,346	3,850
					12	12	10		193	12	10	0
					24	156	86		648	310	114	3,893
					33	141	32		114	429	574	2,077
	23	54	231	0	95	103	95		178	475	797	77
					19	1	0		662	1,253	3,858	3,142
					68	29	290		327	242	913	824
					1	1	6		2	1	8	10

(Table continues on the following page.)

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)—*continued*

Country name	World Bank				IFC				MIGA			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Korea, Rep. of					-4	0	0	0				
Kosovo	17	0	0	27	0	0	0	6				
Kyrgyz Republic	28	51	51	80	3	6	14	10	0	0	0	6
Lao PDR	54	50	25	104	5	0	6	-1				
Latvia	0	0	283	144	1	0	-4	0	0	0	100	68
Lebanon	50	6	74	240	61	226	143	153				
Lesotho	15	16	30	60	0	0	0	0				
Liberia	182	21	90	87	0	1	13	4	0	0	0	0
Libya												
Macedonia, FYR	64	130	80	12	-2	55	-4	31				
Madagascar	150	231	0	0	13	6	-1	21	3	31	1	0
Malawi	77	113	70	131	5	8	4	32				
Malaysia					0	0	0	0				
Maldives	7	21	4	14	17	0	61	3				
Mali	139	82	191	158	0	0	33	18				
Marshall Islands												
Mauritania	24	24	0	26	4	6	10	1				
Mauritius	10	30	218	20	0	0	20	0				
Mexico	790	2,417	5,078	3,633	180	159	-38	358				
Micronesia, Fed. Sts.												
Moldova	38	37	62	55	0	5	7	30	0	7	6	0
Mongolia	31	15	42	64	1	51	4	7	10	0	0	0
Montenegro	11	26	27	5	3	16	12	1				
Morocco	338	250	133	868	8	244	24	-52				
Mozambique	151	229	180	381	0	0	28	42	36	0	0	0
Myanmar												
Namibia	4	8	0	0	0	-3	0	0				
Nepal	130	158	284	252	0	0	15	14				
Nicaragua	44	117	12	90	13	76	49	18	1	0	0	0
Niger	67	102	98	0	0	1	4	4				
Nigeria	417	986	1670	401	286	465	517	673	69	7	13	0
Pakistan	1,045	320	1910	691	136	211	309	512	5	36	2	0
Palau												
Panama	82	175	80	40	32	63	390	75				
Papua New Guinea	22	17	0	40	0	40	4	167				
Paraguay	41	47	164	105	5	0	86	100				
Peru	313	700	885	554	104	364	28	140	0	0	0	18
Philippines	325	477	532	355	56	565	118	120				

	IMF				ADB			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	0	0	0	141				
	4	105	0	0	32	65	80	168
					58	10	103	152
	0	2,406	0	0				
	0	0	0	64				
	0	920	0	0				
	25	0	0	0				
	27	29	0	0				
	19	99	0	79				
					3	0	0	0
	0	0	89	0	6	15	37	0
	0	44	0	0				
					0	0	0	10
	8	0	0	118				
	0	0	48,635	48,112				
					0	0	0	0
	54	0	0	564				
	0	0	236	0	27	74	84	98
	0	0	175	0				
	0	0	0	0	93	139	336	263
	36	10	0	0				
	13	36	0	0				
	0	8171	3,189	0	1,321	1,090	940	649
					0	0	0	16
					56	100	145	70
	14	0	0	0				
	88	0	0	0				
					471	820	1,176	600

(Table continues on the following page.)

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)—*continued*

Country name	IDB				AfDB				EBRD			
	2005-2007 ^a	2008	2009	2010 ^{**}	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Korea, Rep. of												
Kosovo												
Kyrgyz Republic									19	18	78	114
Lao PDR												
Latvia									21	0	160	138
Lebanon												
Lesotho					4	0	12	0				
Liberia					4	8	9	24				
Libya					0	0	0	0				
Macedonia, FYR									41	84	157	59
Madagascar					47	53	1	0				
Malawi					14	28	33	10				
Malaysia												
Maldives												
Mali					21	39	33	27				
Marshall Islands												
Mauritania					4	12	74	2				
Mauritius					9	0	290	0				
Mexico	1,029	1,105	3,127	3,031								
Micronesia, Fed. Sts.												
Moldova									33	157	80	129
Mongolia									17	75	43	246
Montenegro									15	23	45	179
Morocco					140	153	386	306				
Mozambique					34	42	21	28				
Myanmar												
Namibia					0	0	0	0				
Nepal												
Nicaragua	103	81	173	220								
Niger					15	28	1	35				
Nigeria					72	37	242	0				
Pakistan												
Palau												
Panama	189	600	705	230								
Papua New Guinea												
Paraguay	122	98	240	371								
Peru	617	215	447	426								
Philippines												

	EIB				EU				Total			
	2005-2007 ^a	2008	2009	2010***	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
					0	0	0		-4	0	0	0
									17	0	0	174
					24	33	29		110	278	251	378
	17	0	0	0	7	29	6		141	89	140	255
	120	897	397	133	5	0	4,319		147	3,303	5,255	483
	208	76	98	9	100	125	67		419	433	382	402
					44	41	6		62	57	47	124
					62	42	159		248	992	271	115
					2	12	0		2	12	0	0
	5	15	144	69	61	103	109		194	387	485	172
					117	447	4		356	796	5	21
					118	141	122		233	389	229	252
					1	0	0		4	0	0	0
	21	0	0	0	7	0	6		57	36	195	16
					89	471	182		249	636	439	203
					2	1	0		2	1	0	10
					49	0	3		89	42	88	147
					51	48	150		70	78	678	20
	0	74	0	104	9	7	14		2,008	3,761	56,816	55,238
					3	1	0		3	1	0	0
	14	29	0	245	67	99	88		206	335	243	1,023
					9	0	3		95	216	412	414
	3	74	155	65	20	44	44		52	182	282	249
	341	425	752	557	216	339	204		1,043	1,411	1,498	1,679
					150	615	40		370	886	443	451
					32	60	46		32	60	46	0
					7	15	3		11	19	3	0
					34	21	45		257	319	681	528
	0	0	21	0	52	15	45		249	299	301	329
					121	312	12		215	479	115	39
					92	2	2		936	1,497	2,444	1,074
	15	0	139	0	74	96	279		2,595	9,925	6,768	1,852
					1	0	0		1	0	0	16
	12	0	750	0	0	0	15		316	838	1,939	345
					44	7	2		122	164	151	277
	0	101	0	0	11	90	0		193	336	490	575
	44	0	0	0	27	10	90		1,193	1,289	1,450	1,138
	27	0	0	0	29	19	83		909	1,880	1,909	1,075

(Table continues on the following page.)

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)—*continued*

Country name	World Bank				IFC				MIGA			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Poland	194	1250	1300	1331	-2	0	10	13				
Romania	274	0	423	0	142	45	133	118				
Russian Federation	147	200	0	125	584	720	430	715	362	71	210	106
Rwanda	62	121	238	122	3	11	9	3	0	2	16	0
Samoa	3	3	0	33	3	0	10	0				
São Tomé and Príncipe	0	6	2	2	0	0	0	0				
Senegal	104	90	261	186	16	17	-3	4	0	0	9	99
Serbia	111	46	652	0	87	41	53	109	0	0	0	54
Seychelles	0	0	9	9	0	0	0	20				
Sierra Leone	58	42	41	62	8	2	7	1	4	0	6	3
Slovak Republic	3	0	0	0	4	0	-9	0				
Solomon Islands	1	6	0	9	0	0	0	35				
Somalia	0	7	0	0	0	0	0	0				
South Africa	2	0	9	3750	82	204	120	27	0	0	0	0
Sri Lanka	102	239	281	165	-9	175	18	68				
St. Kitts and Nevis					0	0	0	0				
St. Lucia	4	3	0	12	0	21	3	2				
St. Vincent												
Sudan	149	5	28	173	0	0	0	0				
Suriname												
Swaziland					0	0	0	8				
Syrian Arab Republic					0	0	4	1				
Tajikistan	42	18	36	79	1	7	16	1				
Tanzania	469	450	670	983	7	68	28	12				
Thailand	0	0	0	79	-3	3	1	28				
Timor-Leste	9	2	0	10								
Togo	0	199	59	70	1	0	5	21				
Tonga	0	5	0	10	0	0	7	0				
Trinidad and Tobago					11	0	0	1				
Tunisia	122	0	336	198	0	237	-11	0				
Turkey	1,495	1,903	1,625	2,960	430	638	288	362	0	537	0	55
Turkmenistan					0	0	0	0				
Uganda	292	238	524	350	54	3	39	6	79	0	0	0
Ukraine	496	550	860	0	177	255	132	282	17	591	393	0
Uruguay	134	0	430	100	33	1	53	3	150	0	1	0
Uzbekistan	5	68	149	25	0	-2	4	5				
Vanuatu					0	0	9	0				

	IMF				ADB			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	0	0	21,118	20,891				
	0	0	17,652	0				
	4	0	0	0				
					19	5	0	16
	1	0	4	0				
	0	77	112	0				
	0	0	4,040	0				
	0	28	31	0				
	15	16	16	47				
	0	0	0	19	2	14	15	17
	0	0	2,551	0	262	173	330	457
	0	0	121	40	52	55	60	122
	0	0	338	0				
					0	0	77	504
					5	0	46	0
	0	133	0	17				
					0	11	10	0
	3,281	0	0	0				
	0	17,391	0	15,260				
	377	0	0	0				
					80	130	60	655

(Table continues on the following page.)

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)—*continued*

Country name	IDB				AfDB				EBRD			
	2005-2007 ^a	2008	2009	2010**	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Poland									323	161	549	853
Romania									470	471	1,005	787
Russian Federation									2,293	2,678	3,252	3,063
Rwanda					13	8	38	8				
Samoa												
São Tomé and Príncipe					1	0	1	3				
Senegal					21	21	112	7				
Serbia									309	187	619	794
Seychelles					0	0	9	0				
Sierra Leone					10	7	24	14				
Slovak Republic									67	4	316	83
Solomon Islands												
Somalia					0	0	0	0				
South Africa					72	144	1,148	0				
Sri Lanka												
St. Kitts and Nevis												
St. Lucia												
St. Vincent												
Sudan					2	0	0	0				
Suriname	4	76	15	14								
Swaziland					1	0	0	0				
Syrian Arab Republic												
Tajikistan									27	51	34	29
Tanzania					66	88	101	220				
Thailand												
Timor-Leste												
Togo					1	10	8	18				
Tonga												
Trinidad and Tobago	10	24	49	143								
Tunisia					68	199	183	117				
Turkey									0	0	209	655
Turkmenistan									2	15	5	8
Uganda					73	134	85	0				
Ukraine									846	1,229	1,411	1,263
Uruguay	187	383	326	100								
Uzbekistan									24	49	23	5
Vanuatu												

	EIB				EU				Total			
	2005-2007 ^a	2008	2009	2010 ^{***}	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	2,788	4,172	6,665	7,382	27	1	0		3,330	5,584	29,643	30,470
	758	1,635	2,052	544	833	11	6,966		2,476	2,162	28,231	1,448
	25	0	185	332	172	62	11		3,584	3,731	4,089	4,341
					63	261	145		145	403	445	133
					9	1	21		33	9	32	49
					2	2	22		5	8	28	5
					92	202	107		233	405	599	295
	180	378	1250	916	252	750	564		939	1,402	7,177	1,872
					3	0	27		3	29	75	29
					61	107	26		157	174	120	127
	91	237	510	1,887	6	0	0		170	241	817	1,971
					8	0	14		11	20	29	80
					77	193	108		77	200	108	0
	145	299	390	66	187	213	179		488	859	1,845	3,843
	50	0	0	0	47	105	19		453	692	3,199	690
					7	14	15		7	14	15	0
					17	10	0		22	34	3	14
					11	6	0		11	6	0	0
					208	234	164		359	239	192	173
					8	5	24		12	81	39	14
					23	30	30		24	30	30	8
	180	407	216	245	34	42	68		214	450	287	246
					40	20	32		163	151	299	270
					140	39	583		683	645	1,720	1,215
					20	0	27		17	3	106	611
					20	13	5		34	15	51	10
					31	33	38		32	377	110	126
					2	0	1		2	17	18	10
					14	16	15		35	41	64	143
	350	457	605	661	127	110	107		667	1,004	1,220	976
	2,134	3,979	3,689	2,567	538	824	743		7,878	7,881	6,554	6,599
					7	7	0		8	21	5	8
					154	412	217		652	787	864	356
	91	221	139	21	197	254	216	663	1,824	20,490	3,152	17,489
	13	0	0	0	14	0	1		909	384	811	203
					8	7	15		116	252	250	690
					4	2	15		4	2	24	0

(Table continues on the following page.)

TABLE B.1 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis (2005–10) (US\$ millions)—*continued*

Country name	World Bank				IFC				MIGA			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Venezuela, R. B. de	2	0	0	0	14	0	0	0				
Vietnam	683	1091	1963	1300	33	92	222	370				
West Bank and Gaza	50	178	84	64	0	8	46	84				
Yemen, Republic of	75	135	261	226	42	24	1	12				
Zambia	45	48	85	85	4	7	6	35				
Zimbabwe	0	0	7	0	0	0	0	0				
TOTAL- A ^b	22,695	34,790	53,891	46,264	5,185	10,007	8,097	9,415	1,306	2,098	1,243	1,464
% increase per IFI ^c		53	137	104		93	56	82		61	-5	12
% increase per IFI ^d				121				69				4
% of all IFI/year	28.9	20.9	19.5	21.5	6.6	6.0	2.9	4.4	1.7	1.3	0.4	0.7

Country name	IDB				AfDB				EBRD			
	2005-2007 ^a	2008	2009	2010**	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Venezuela, R. B. de	362	0	1000	891								
Vietnam												
West Bank and Gaza												
Yemen, Republic of												
Zambia					15	41	0	21				
Zimbabwe					0	0	1	0				
TOTAL- A ^b	7,367	11,001	15,412	13,197	1,373	1,812	4,290	1,631	6,272	7,436	10,839	11,807
% increase per IFI ^c		49	109	79		32	212	19		19	73	88
% increase per IFI ^d				94				116				81
% of all IFI/year ^e	9.4	6.6	5.6	6.1	1.7	1.1	1.5	0.8	8.0	4.5	3.9	5.5

Note: All figures are reported in US\$ millions. Annual average exchange rates are used for conversion to US\$. Data are presented for 147 countries (all countries eligible to borrow from the Bank in FY09-10). IFC and MIGA figures are in fiscal years. The numbers for IFC correspond to net commitments (not signed amount) and include the Global Trade Finance Program. AfDB numbers for 2010 are based on project summary documents available on the AfDB website. All other numbers for 2005-09 are from AfDB Annual Reports. There might be a consistency of sample base issue between the two sources. EU numbers for 2010 were not available except for information on an MFA package for Ukraine for €500 million. The numbers for 2008 and 2009 were augmented for Hungary (2008) and Latvia and Romania (2009) to account for BOP assistance package that was approved in those years. EU numbers include assistance from ECFIN and all other DGs. ADB = Asian Development Bank; AfDB = African Development Bank; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; EU = European Union; IDB = Inter-American Development Bank; IFC = International Finance Corporation; IFI = International finance institution; IMF = International Monetary Fund.

a. Annual average for 2005-07.

b. Total for countries in the list, not institutional totals.

c. % Increase in total lending versus 2005-07.

d. % Increase in total lending in 2009-10 versus 2005-07.

e. Share of total lending per institutions in total lending by all institutions per year.

	IMF				ADB			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
					790	790	1,926	1,090
	0	0	0	372				
	0	77	264	0				
	5,062	47,244	123,285	95,960	7,840	10,588	14,117	12,429
		833	2,336	1,796		35	80	59
				2,066				69
	6.4	28.4	44.5	44.5	10.0	6.4	5.1	5.8

	EIB				EU				Total			
	2005-2007 ^a	2008	2009	2010***	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
					6	5	12		384	5	1,012	891
	16	0	205	296	31	93	19		1,552	2,066	4,335	3,055
	23	0	0	7	360	585	557		433	771	687	154
					26	40	44		144	199	306	610
					92	509	58		156	682	414	141
					65	33	82		65	33	90	0
	11,594	17,996	23,128		9,919	23,293	22,505	663	78,613	166,264	276,808	215,488
		55	99	95		135	127			111	252	174
				99			127					213
	14.7	10.8	8.4		12.6	14.0	8.1	0.3	100.0	100.0	100.0	100.0

TABLE B.2 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis—Shares by Institution (2005–10)

Country name	World Bank (%)				IFC (%)				MIGA (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Afghanistan	36	26	23	40	0	0	8	2	4	0	0	0
Albania	24	21	22	0	1	4	21	1				
Algeria	0	0	0	0	4	21	47	0	0	5	0	0
Angola	46	45	0	87	0	27	7	13	7	0	0	0
Antigua and Barbuda	0	0	0	0	0		0	20				
Argentina	33	27	40	53	6	21	8	6				
Armenia	32	10	17	12	2	13	0	4				
Azerbaijan	39	76	33	66	2	2	8	5				
Bangladesh	37	67	21	39	1	2	6	6	3	0	0	0
Barbados	0	38	0	0	0	0	9	0				
Belarus	22	42	8	61	17	29	0	18				
Belize	0	0	0	54	0	0	0	2				
Benin	47	26	42	34	0	0	4	12	0	0	1	0
Bhutan	39	3	34	62	0	0	1	1				
Bolivia	22	22	10	0	7	17	4	7	3	0	0	0
Bosnia and Herzegovina	9	4	5	27	6	6	0	-1	1	0	2	0
Botswana	0	43	41	0	7	34	0	120				
Brazil	40	43	44	49	15	12	9	15	2	0	1	0
Bulgaria	11	17	34	0	2	5	7	3	4	0	0	0
Burkina Faso	54	19	56	54	1	2	3	6	2	0	0	0
Burundi	30	41	59	100	0	0	1	0				
Cambodia	28	59	8	35	6	1	20	-17				
Cameroon	27	39	49	54	15	4	-2	24	0	0	0	0
Cape Verde	46	28	27	75	0	12	-1	0				
Central African Rep.	31	15	28	92	0	0	0	8	0	27	0	0
Chad	7	0	0	46	0	0	2	53				
Chile	21	4	1	0	11	14	67	43				
China	36	42	47	40	10	15	5	9	1	0	2	1
Colombia	40	62	5	15	9	5	1	5				
Comoros	10	0	1	95								
Congo, Dem. Rep. of	45	69	13	83	4	1	1	8	0	4	0	0
Congo, Republic of	25	49	51	94	0	0	0	0				
Costa Rica	8	12	38	0	5	-1	0	24	0	14	0	0
Cote d'Ivoire	31	86	20	82	0	0	0	9				
Croatia	31	26	11	16	8	7	4	0	0	0	0	28
Djibouti	34	2	77	100	0	1	0	0	0	83	0	0
Dominica	4	0	0	0	0	0						
Dominican Republic	12	58	12	30	9	16	0	4	10	0	0	0

	IMF (%)				ADB (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	5	0	0	0	25	37	33	58
	4	0	0	0				
	0	0	91	0				
	0		0	80				
	5	7	58	49	10	9	10	25
					18	13	13	7
					47	26	64	56
	0	0	89	0				
	2	5	6	43				
					56	97	65	37
	9	0	0	0				
	0	0	70	0				
	1	2	12	30				
	0	25	0	0				
					45	32	68	82
	4	0	0	0				
	17	9	18	0				
	8	0	0	0				
					40	41	42	36
	11	0	82	67				
	0	0	28	0				
	0	0	40	0				
	0	17	0	0				
	0	0	58	0				
	0	0	52	0				
	0	0	0	0				
	0	4	0	0				
	39	0	55	0				

(Table continues on the following page.)

TABLE B.2 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis—Shares by Institution (2005–10)—*continued*

Country name	IDB (%)				AfDB (%)				EBRD (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Afghanistan												
Albania									29	42	22	59
Algeria					0	0	0	0				
Angola					8	0	1	0				
Antigua and Barbuda												
Argentina	60	52	45	40								
Armenia									34	39	8	8
Azerbaijan									37	7	40	21
Bangladesh												
Barbados	36	45	89	100								
Belarus									47	18	2	21
Belize	45	60	44	44								
Benin					9	5	6	11				
Bhutan												
Bolivia	41	43	65	93								
Bosnia and Herzegovina									29	37	7	54
Botswana					0	23	53	-20				
Brazil	35	41	46	29								
Bulgaria									19	24	34	81
Burkina Faso					7	6	10	10				
Burundi					5	3	3	0				
Cambodia												
Cameroon					17	0	11	23				
Cape Verde					5	7	45	25				
Central African Rep.					2	5	6	0				
Chad					8	0	14	1				
Chile	62	82	31	57								
China												
Colombia	36	31	10	13								
Comoros					0	16	14	5				
Congo, Dem. Rep. of					10	0	3	9				
Congo, Republic of					6	1	22	6				
Costa Rica	86	74	3	76								
Cote d'Ivoire					3	0	19	9				
Croatia									20	16	26	24
Djibouti					6	8	2	0				
Dominica												
Dominican Republic	19	19	32	66								

	EIB (%)				EU (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
					31	37	37	
	16	0	5	40	26	33	30	
	6	0	0	100	90	73	53	
					39	28	1	
					100		100	
	0	0	7	0	1	0	0	
	0	0	0	1	16	22	7	
					3	2	5	
					13	5	9	
					64	16	2	
					14	11	0	
					55	40	56	
					43	64	42	
					5	0	0	
					17	18	21	
	43	39	10	20	13	13	7	
					93	0	7	
	6	4	0	7	1	0	0	
	36	53	26	17	28	1	0	
					35	71	20	
					64	31	37	
					20	8	4	
					37	56	43	
					49	54	29	
					50	44	47	
					77	100	84	
					6	0	0	
	12	0	4	15	1	3	1	
	2	0	1	0	3	2	0	
					90	84	57	
					41	25	43	
					69	33	27	
					2	1	0	
					65	14	9	
	27	26	44	32	14	26	15	
					60	2	21	
					96	100		
					11	7	0	

(Table continues on the following page.)

TABLE B.2 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis—Shares by Institution (2005–10)—*continued*

Country name	World Bank (%)				IFC (%)				MIGA (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Ecuador	24	0	0	0	1	38	9	1	10	0	0	0
Egypt, Arab Rep. of	32	44	66	56	6	5	13	5				
El Salvador	45	0	34	6	6	0	1	-1	1	0	0	0
Equatorial Guinea	0	0	0	0								
Eritrea	12	83	0	0	0	0	0	0				
Ethiopia	60	51	77	80	0	4	0	1	0	0	0	1
Fiji	0	0	0	0	0	0	25					
Gabon	13	0	0	0	0	0	0	0				
Gambia, The	21	0	52	81	0	4	19	0				
Georgia	21	8	23	8	6	3	15	3				
Ghana	53	23	33	38	12	10	22	31	1	0	0	24
Grenada	6	44	17	37	0	0	0	0				
Guatemala	47	43	23	20	3	0	7	17				
Guinea	19	38	0	0	1	8	0		21	7	0	
Guinea—Bissau	13	25	21	35	0	0	0	0				
Guyana	9	0	0	10	2	0	6	0				
Haiti	21	40	10	27	3	0	1	5				
Honduras	38	25	19	15	1	9	56	13				
Hungary	0	0	28	0	3	0	0	0	0	0	3	0
India	57	40	70	61	13	15	8	9				
Indonesia	51	61	60	76	7	5	2	4	0	0	0	0
Iran, Islamic Rep. of	59	0	0	0	2	0	0		33	0	0	
Iraq	22	50	24	6	0	0	0	0	0	0	0	0
Jamaica	11	15	23	10	23	4	2	0	35	0	0	0
Jordan	27	16	48	0	6	51	11	100	1	0	0	0
Kazakhstan	10	10	56	36	0	8	5	11	6	4	5	6
Kenya	58	0	51	85	11	44	7	6	2	36	0	0
Kiribati	36	0	0	0	0	0	24	-18				
Korea, Rep. of	0	0	0	0	101	0	0					
Kosovo	100	0	0	15	0			4				
Kyrgyz Republic	25	18	20	21	3	2	6	3	0	0	0	2
Lao PDR	38	56	18	41	4	0	4	0				
Latvia	0	0	5	30	0	0	0	0	0	0	2	14
Lebanon	12	1	19	60	15	52	38	38				
Lesotho	24	28	64	48	0	0	0	0				
Liberia	73	2	33	76	0	0	5	3	0	0	0	0
Libya	0	0	0	0								
Macedonia, FYR	33	34	16	7	-1	14	-1	18				

	IMF (%)				ADB (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	0	0	44	60				
	0	0	14	0				
					65	0	74	
	32	0	0	0				
	16	0	14	19				
	0	48	27	0	3	7	15	34
	0	0	35	0				
	28	27	39	63				
	0	0	40	0				
	17	9	0					
	0	0	0	63				
	11	17	8	11				
	0	15	0	25				
	0	58	0	0				
					26	39	20	30
					37	33	34	20
	74	0	0	93				
	0	0	0	60				
					9	27	18	19
	-12	0	0	0				
					0	0	0	118
	0			81				
	4	38	0	0	29	24	32	44
					41	11	74	59
	0	73	0	0				
	0	0	0	52				
	0	93	0	0				
	13	0	0	0				

(Table continues on the following page.)

TABLE B.2 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis—Shares by Institution (2005–10) (%)—*continued*

Country name	IDB (%)				AfDB (%)				EBRD (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Ecuador	59	31	84	99								
Egypt, Arab Rep. of					18	13	3	8				
El Salvador	39	99	18	35								
Equatorial Guinea					0	96						
Eritrea					0	0	1	100				
Ethiopia					8	8	0	18				
Fiji												
Gabon					45	0	93	100				
Gambia, The					8	34	9	0				
Georgia									53	20	7	37
Ghana					12	17	5	8				
Grenada												
Guatemala	43	55	28	63								
Guinea					4	28	32					
Guinea-Bissau					5	2	15	2				
Guyana	54	44	48	91								
Haiti	32	0	0	57								
Honduras	47	27	24	47								
Hungary									4	0	16	10
India												
Indonesia												
Iran, Islamic Rep. of												
Iraq												
Jamaica	1	48	70	31								
Jordan												
Kazakhstan									71	51	16	28
Kenya					20	8	10	9				
Kiribati												
Korea, Rep. of												
Kosovo												
Kyrgyz Republic									18	6	31	30
Lao PDR												
Latvia									14	0	3	29
Lebanon												
Lesotho					6	0	24	0				
Liberia					2	1	3	21				
Libya					0	0		100				
Macedonia, FYR									21	22	32	34

	EIB (%)				EU (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	3	0	0	0	2	31	7	
	32	24	9	30	12	13	10	
					8	1	4	
					100	4		
					88	17	99	
					32	38	8	
					35	100	1	
					10	100	7	
					55	62	5	
	0	0	0	19	18	14	13	
					22	50	5	
					66	28	43	
					6	2	3	
					38	10	68	
					83	72	64	
					35	56	45	
					33	43	82	
	4	0	0	0	9	24	1	
	92	8	53	90	0	33	0	
	0	3	2	0	4	3	0	
	1	0	0	0	4	1	3	
					6	100	100	
					4	50	76	
					29	33	6	
	13	11	29	0	53	22	12	
					3	0	0	
					21	12	32	
					64	100	76	
					-1	100	100	
					21	12	11	
	12	0	0	0	5	33	4	
	82	27	8	27	4	0	82	
	50	18	26	2	24	29	18	
					71	72	12	
					25	4	59	
					100	100		
	2	4	30	40	31	27	22	

(Table continues on the following page.)

TABLE B.2 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis—
Shares by Institution (2005–10)—*continued*

Country name	World Bank (%)				IFC (%)				MIGA (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Madagascar	42	29	0	0	4	1	-14	100	1	4	14	0
Malawi	33	29	31	52	2	2	2	13				
Malaysia	0	0	0	0	0	0	0					
Maldives	12	58	2	85	29	0	31	15				
Mali	56	13	44	78	0	0	8	9				
Marshall Islands	0	0	0	0								
Mauritania	27	56	0	17	5	14	12	1				
Mauritius	14	39	32	98	0	0	3	0				
Mexico	39	64	9	7	9	4	0	1				
Micronesia, Fed. Sts.	0	0	0	0								
Moldova	19	11	25	5	0	1	3	3	0	2	3	0
Mongolia	33	7	10	15	2	24	1	2	11	0	0	0
Montenegro	21	14	10	2	6	9	4	0				
Morocco	32	18	9	52	1	17	2	-3				
Mozambique	41	26	41	85	0	0	6	9	10	0	0	0
Myanmar	0	0	0	0								
Namibia	39	40	0	0	-2	-18	0	0				
Nepal	51	50	42	48	0	0	2	3				
Nicaragua	18	39	4	27	5	25	16	6	0	0	0	0
Niger	31	21	85	0	0	0	3	10				
Nigeria	45	66	68	37	31	31	21	63	7	0	1	0
Pakistan	40	3	28	37	5	2	5	28	0	0	0	0
Palau	0	0	0	0								
Panama	26	21	4	12	10	7	20	22				
Papua New Guinea	18	10	0	14	0	24	3	60				
Paraguay	21	14	33	18	3	0	18	17				
Peru	26	54	61	49	9	28	2	12	0	0	0	2
Philippines	36	25	28	33	6	30	6	11				
Poland	6	22	4	4	0	0	0	0				
Romania	11	0	1	0	6	2	0	8				
Russian Federation	4	5	0	3	16	19	11	16	10	2	5	2
Rwanda	43	30	53	91	2	3	2	3	0	0	3	0
Samoa	8	32	0	68	9	0	33	-1				
São Tomé and Príncipe	0	73	7	39	0	0	0	1				
Senegal	44	22	44	63	7	4	-1	1	0	0	2	34
Serbia	12	3	9	0	9	3	1	6	0	0	0	3
Seychelles	0	0	12	31	0	0	0	69				
Sierra Leone	37	24	34	49	5	1	6	1	3	0	5	2

	IMF (%)				ADB (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	8	4	0	0				
	8	25	0	32				
					79	0	0	
	0	0	45	0	10	42	19	0
	0	7	0	0				
					0	0		100
	9	0	0	80				
	0	0	86	87				
					0	0		
	26	0	0	55				
	0	0	57	0	28	34	20	24
	0	0	40	0				
	0	0	0	0	36	44	49	50
	15	3	0	0				
	6	8	0	0				
	0	82	47	0	51	11	14	35
					0	0		100
					46	61	96	25
	7	0	0	0				
	7	0	0	0				
					52	44	62	56
	0	0	71	69				
	0	0	63	0				
	3	0	0	0				
					56	53	0	33
	30	0	14	0				
	0	19	19	0				
	0	0	56	0				
	0	97	41	0				
	10	9	13	37				

(Table continues on the following page.)

TABLE B.2 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis—Shares by Institution (2005–10)—*continued*

Country name	IDB (%)				AfDB (%)				EBRD (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Madagascar					13	7	16	0				
Malawi					6	7	14	4				
Malaysia												
Maldives												
Mali					9	6	7	14				
Marshall Islands												
Mauritania					4	30	85	2				
Mauritius					13	0	43	2				
Mexico	51	29	6	5								
Micronesia, Fed. Sts.												
Moldova									16	47	33	13
Mongolia									18	35	10	59
Montenegro									29	13	16	72
Morocco					13	11	26	18				
Mozambique					9	5	5	6				
Myanmar												
Namibia					0	0	12	100				
Nepal												
Nicaragua	41	27	58	67								
Niger					7	6	1	90				
Nigeria					8	2	10	0				
Pakistan												
Palau												
Panama	60	72	36	67								
Papua New Guinea												
Paraguay	63	29	49	65								
Peru	52	17	31	37								
Philippines												
Poland									10	3	2	3
Romania									19	22	4	54
Russian Federat									64	72	80	71
Rwanda					9	2	9	6				
Samoa												
São Tomé and Príncipe					19	0	2	60				
Senegal					9	5	19	2				
Serbia									33	13	9	42
Seychelles					2	1	12	1				
Sierra Leone					7	4	20	11				

	EIB (%)				EU (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
					33	56	84	
					50	36	53	
					21	100	100	
	37	0	0	0	12	0	3	
					36	74	41	
					100	100		
					55	0	3	
					72	61	22	
	0	2	0	0	0	0	0	
					100	100		
	7	9	0	24	32	30	36	
					9	0	1	
	7	40	55	26	37	24	15	
	33	30	50	33	21	24	14	
					40	69	9	
					100	100	100	
					63	78	88	
					13	7	7	
	0	0	7	0	21	5	15	
					56	65	11	
					10	0	0	
	1	0	2	0	3	1	4	
					100	100		
	4	0	39	0	0	0	1	
					36	4	2	
	0	30	0	0	6	27	0	
	4	0	0	0	2	1	6	
	3	0	0	0	3	1	4	
	84	75	22	24	1	0	0	
	31	76	7	38	34	0	25	
	1	0	5	8	5	2	0	
					43	65	33	
					27	15	67	
					51	27	76	
					39	50	18	
	19	27	17	49	27	53	8	
					98	1	35	
					39	61	21	

(Table continues on the following page.)

TABLE B.2 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis—Shares by Institution (2005–10) (%)—continued

Country name	World Bank (%)				IFC (%)				MIGA (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Slovak Republic	2	0	0	0	2	0	-1	0				
Solomon Islands	10	28	0	12	0	0	0	43				
Somalia	0	3	0	0	0	0	0					
South Africa	0	0	0	98	17	24	6	1	0	0	0	0
Sri Lanka	23	35	9	24	-2	25	1	10				
St. Kitts and Nevis	0	0	0	0	0	0	0					
St. Lucia	20	9	0	88	0	62	95	12				
St. Vincent	0	0	0	0								
Sudan	41	2	15	100	0	0	0	0				
Suriname	0	0	0	0								
Swaziland	0	0	0	0	0	0	0	97				
Syrian Arab Republic	0	0	0	0	0	0	1	0				
Tajikistan	26	12	12	29	1	5	5	0				
Tanzania	69	70	39	81	1	11	2	1				
Thailand	0	0	0	13	-19	93	1	5				
Timor—Leste	25	14	0	100								
Togo	0	53	54	56	2	0	4	16				
Tonga	16	32	0	100	0	0	38	0				
Trinidad and Tobago	0	0	0	0	30	0	0	0				
Tunisia	18	0	28	20	0	24	-1	0				
Turkey	19	24	25	45	5	8	4	5	0	7	0	1
Turkmenistan	0	0	0	0	0	0	0	0				
Uganda	45	30	61	98	8	0	4	2	12	0	0	0
Ukraine	27	3	27	0	10	1	4	2	1	3	12	0
Uruguay	15	0	53	49	4	0	7	2	17	0	0	0
Uzbekistan	4	27	59	4	0	-1	1	1				
Vanuatu	0	0	0	0	0	0	38					
Venezuela, R. B. de	1	0	0	0	4	0	0	0				
Vietnam	44	53	45	43	2	4	5	12				
West Bank and Gaza	12	23	12	42	0	1	7	54				
Yemen, Republic of	52	68	85	37	29	12	0	2				
Zambia	29	7	21	60	3	1	1	25				
Zimbabwe	0	0	8	0	0	0	0	0				
Share of IFI/Year	29	21	19	21	7	6	3	4	2	1	0	1

	IMF (%)				ADB (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	0	0	0	24	17	72	51	21
	0	0	80	0	58	25	10	66
	0	0	40	15	32	36	20	45
	0	0	20	0				
					0	0	73	82
					16	0	90	0
	0	35	0	13				
					0	68	55	0
	42	0	0	0				
	0	85	0	87				
	42	0	0	0				
					69	51	24	95
					51	38	44	36
	0	0	0	61				
	0	11	64	0				
	6	28	45	45	10	6	5	6

(Table continues on the following page.)

TABLE B.2 IFI and Regional Development Bank Support to Client Countries—Pre-Crisis and Crisis—
Shares by Institution (2005–10) (%)—*continued*

Country name	IDB (%)				AfDB (%)				EBRD (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
Slovak Republic									39	2	39	4
Solomon Islands												
Somalia					0	0	0					
South Africa					15	17	62	0				
Sri Lanka												
St. Kitts and Nevis												
St. Lucia												
St. Vincent												
Sudan					1	0	0	0				
Suriname	31	94	38	100								
Swaziland					6	0	0	3				
Syrian Arab Republic												
Tajikistan									17	34	11	11
Tanzania					10	14	6	18				
Thailand												
Timor-Leste												
Togo					2	3	8	15				
Tonga												
Trinidad and Tobago	29	60	76	100								
Tunisia					10	20	15	12				
Turkey									0	0	3	10
Turkmenistan									19	69	100	100
Uganda					11	17	10	0				
Ukraine									46	6	45	7
Uruguay	21	100	40	49								
Uzbekistan									20	19	9	1
Vanuatu												
Venezuela, R. B. de	94	0	99	100								
Vietnam												
West Bank and Gaza												
Yemen, Republic of												
Zambia					10	6	0	15				
Zimbabwe					0	0	1	100				
Share of IFI/Year	29	21	19	21	7	6	3	4	2	1	0	1

Note: All shares are reported in %. Data are presented for 147 countries (all countries eligible to borrow from the Bank in FY09-10). IFC and MIGA figures are in fiscal years. The numbers for IFC correspond to net commitments (not signed amount) and include the Global Trade Finance Program. AfDB numbers for 2010 are based on project summary documents available on AfDB website. All other numbers for 2005–2009 are from AfDB Annual Reports. There might be a consistency of sample base issue between the two sources. EU numbers for 2010 were not available except for information on a MFA package for Ukraine for €500 million. The numbers for 2008 and 2009 were augmented for Hungary (2008) and Latvia and Romania (2009) to account for BOP assistance package that was approved in those years. EU numbers include assistance from ECFIN and all other

	EIB (%)				EU (%)			
	2005-2007 ^a	2008	2009	2010	2005-2007 ^a	2008	2009	2010
	53	98	62	96	4	0	0	
					73	0	49	
					100	97	100	
	30	35	21	2	38	25	10	
	11	0	0	0	10	15	1	
					100	100	100	
					80	29	5	
					100	100	100	
					58	98	85	
					69	6	62	
					94	100	100	
	84	91	75	100	16	9	24	
					25	13	11	
					20	6	34	
					119	7	26	
					59	86	10	
					97	9	34	
					84	0	7	
					41	40	24	4
	52	46	50	68	19	11	9	
	27	50	56	39	7	10	11	
					81	31	0	
					24	52	25	
	5	1	4	0	11	1	7	
	1	0	0	0	2	0	0	
					6	3	6	
					100	100	62	
					2	100	1	
	1	0	5	10	2	5	0	
	5	0	0	4	83	76	81	
					18	20	14	
					59	75	14	
					100	100	91	
	6	28	45	45	10	6	5	6

DGs. ADB = Asian Development Bank; AfDB = African Development Bank; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; EU = European Union; IDB = Inter-American Development Bank; IFC = International Finance Corporation; IFI = International finance institution; IMF = International Monetary Fund.

a. Annual average for 2005–07.

TABLE B.3 Commitments and Disbursements, Pre-Crisis (FY05–07) and Crisis (FY09–10)					
Fiscal year	Commitments (US\$ billions)				
	IBRD	IDA	DPL	IL	Total
2005	14.4	7.9	6.6	15.7	22.3
2006	14.1	9.5	7.3	16.3	23.6
2007	13.7	11.0	6.3	18.4	24.7
2008	14.1	10.6	6.6	18.1	24.7
2009	33.0	13.9	18.4	28.6	46.9
2010	44.8	13.9	23.0	35.7	58.6
2011	7.3	3.3	2.7	8.0	10.6
Average					
Pre-crisis	14.1	9.5	6.7	16.8	23.5
Crisis	38.9	13.9	20.7	32.1	52.8
Total disbursements (\$ billions)					
2005	7.3	6.5	6.3	7.5	13.8
2006	10.5	7.4	7.8	10.1	18.0
2007	10.3	7.4	6.3	11.4	17.7
2008	10.6	8.4	6.3	12.7	19.0
2009	18.9	8.4	10.9	16.4	27.3
2010	29.0	11.1	20.6	19.4	40.1
2011	16.7	5.7	10.3	12.1	22.4
Average					
Pre-crisis	9.4	7.1	6.8	9.7	16.5
Crisis	23.9	9.7	15.8	17.9	33.7
Disbursements of FY commitments (\$ billions)					
2005	2.3	2.0	3.9	0.4	4.4
2006	2.9	2.3	4.3	0.9	5.2
2007	2.0	1.9	3.6	0.2	3.8
2008	1.9	1.9	3.6	0.2	3.8
2009	8.5	2.2	8.1	2.5	10.6
2010	14.0	1.6	14.8	0.7	15.6
2011	1.8	0.5	2.3	0.0	2.4
Average					
Pre-crisis	2.4	2.1	4.0	0.5	4.5
Crisis	11.2	1.9	11.5	1.6	13.1
Source: World Bank data.					

TABLE B.4 Total Lending by Instrument—ADB (US\$ millions)							
Instrument		2005	2006	2007	2008	2009	2010
Ordinary Capital Resources Loan	Sovereign	3,885	5,542	6,972	6,839	10,568	8,197
	Nonsovereign	513	450	650	1,297	438	1,053
	Subtotal	4,398	5,992	7,623	8,135	11,006	9,250
Asian Development Fund Loan	Sovereign	1,362	1,272	1,893	1,764	2,210	2,213
	Nonsovereign	—	—	—	—	—	—
	Subtotal	1,362	1,272	1,893	1,764	2,210	2,213
Asian Development Fund Grant	Sovereign	247	272	519	707	911	967
	Nonsovereign	-	-	-	-	-	-
	Subtotal	247	272	519	707	911	967
Total	Sovereign	5,494	7,086	9,385	9,310	13,689	11,377
	Nonsovereign	513	450	650	1,297	438	1,053
	Total	6,007	7,536	10,035	10,606	14,127	12,429

Source: Asian Development Bank data.

TABLE B.5 Total Lending by Instrument—IDB (US\$ millions)				
Instrument	2007	2008	2009	2010
FSO	155.7	132.2	226.6	—
GRF	50.0	25.0	122.0	226.0
MIF	55.9	—	—	—
MSE	—	28.0	12.8	68.7
MSF	—	58.3	40.5	—
ORC	8,806.1	11,086.7	15,277.3	11,356.5
ORC B	2,060.1	1,861.6	—	—
HRF	—	—	—	12.5
MPF	—	—	—	25.0
SFW	—	—	—	279.3
BLD	—	—	—	1,160.8
CJF	—	—	—	33.9
CLF	—	—	—	4.0
COF	—	—	—	2.2
DHR	—	—	—	4.6
FMM	—	—	—	15.6
Total	11,127.8	13,191.7	15,679.2	13,189.1

Source: Inter-American Development Bank data.
Note: The statement of operations provided by IDB did not include loans less than \$2 million.

TABLE B.6 Lending by Instrument—EBRD (€ millions)					
Instrument	2005	2006	2007	2008	2009
Loan	2,686.4	2,881.1	3,137.0	3,155.2	6,063.7
Equity	532.9	1,065.4	1,491.6	887.4	1,110.7
Guarantee	30.5	9.0	15.7	3.4	62.9
Total	3,249.8	3,955.5	4,644.3	4,045.9	7,237.3

Source: European Bank for Reconstruction and Development data.
Note: In 2005, the average conversion rate is US\$1.24/€, in 2006 US\$1.26/€, in 2007 US\$1.37/Euro, in 2008 US\$1.47. IFI lending by instrument 2009 US\$1.39/€.

2. Methodological Note: Patterns of Stress and Allocation of World Bank Group Lending Support

Introduction: Scope and Motivation of Analysis

This appendix describes the methodology used to analyze the World Bank's response to the crisis. It is limited to assessing the relationship between crisis intensity and increase in lending volume during the crisis period, and does not look at the relationship of crisis intensity regarding the *content* of Bank lending support or advisory services (assessed in chapters 3–6). The findings are intended to be interpreted as conditional correlations between crisis incidence and incremental Bank lending and not as causal effects. The motivation for the analysis lies in the pattern of Bank lending response to crises in the past (table B.7), and in the unprecedented increase in Bank lending during FY09–10, second only to the International Monetary Fund (IMF), and likely motivated in large part by the crisis (figure B.1). There were no known other factors *independent* of the crisis that may have motivated this *substantial* deviation from the baseline trends.

Data and Measurement

The *sample of countries reported on in the chapter includes* actual Bank borrowers in FY09–10 (117 countries) and not

all eligible borrowers in FY09–10 (147 countries).¹ The crisis response Phase 1 study also limited its analysis to a sample of actual borrowers in FY09–10. Restricting the analysis to these 117 borrowing countries throughout the analysis is one of the ways in which the analysis takes into account the demand-driven nature of Bank lending.

Data Sources: The analysis draws on a variety of data sources in addition to World Bank data. These include: IMF *World Economic Outlook*, IMF International Financial Statistics, World Bank Global Economic Monitor, World Development Indicators, Global Development Finance, Bloomberg, Datastream, United Nations (UN) Statistics Department National Accounts Database, UN Statistics Department Annual Trade tables, World Integrated Trade Solutions, an internal World Bank database, IFC credit risk ratings, and annual reports of international financial institutions (IFIs)/multilateral development banks (MDBs) and/or lending tables provided directly by IFIs/MDBs. Table B.8 presents some key indicators, their definitions, and data sources by indicator.

Variables Used and their Definitions: The main dependent variable in the analysis is *Incremental Bank lending*, defined as (i) *change in new commitments* between FY05–07 and FY09–10, and (ii) *change in new commitments* between FY05–07 and FY09–10 as share of gross domestic product (GDP). Other dependent variables used in the analysis are: *Incremental lending by major donors*; defined as *change in new commitments* (in ab-

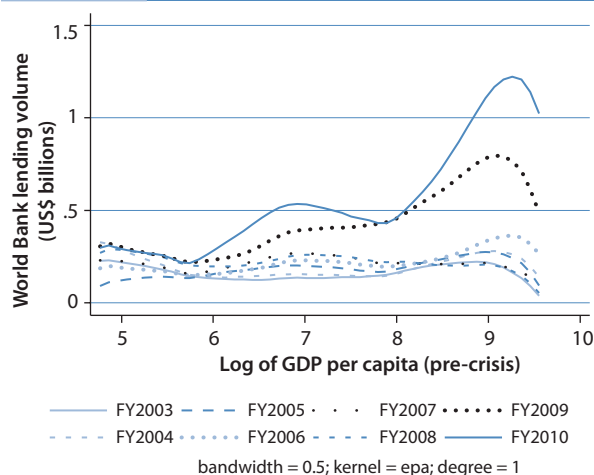
TABLE B.7 Relationship Between Past Crisis (1990–2002) and World Bank Lending Response

	World Bank Lending (USD million)		World Bank Lending (log)	
	(1)	(2)	(1)	(2)
Crisis incidence ^a	26.82* (15.35)	26.54* (15.26)	0.106* (0.063)	0.112* (0.065)
Country fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Country*time fixed effects	Yes	Yes	Yes	Yes
Network	No	Yes	No	Yes
IBRD/IDA	No	Yes	No	Yes
N	3610	3610	3610	3610

Note: Standard errors are robust and clustered at the year*country level. Data on crisis incidence (that is, banking, currency, and debt crisis) for the period 1990–2002 is from Laeven and Valencia (2008). Sample includes actual Bank borrowers only.

a. *10% significance level.

FIGURE B.1 World Bank Lending (2003–10) versus Log of GDP Per Capita



bandwidth = 0.5; kernel = epa; degree = 1

solute terms and scaled by GDP) between 2005 and 2007 and 2009 and 2010 by the IMF, Asian Development Bank (ADB), African Development Bank (AfDB), Inter-American Development Bank (IDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), European Union (EU), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA). *Incremental lending by major donors excluding IMF* follows the same definition. Similarly, *incremental lending by major donors excluding IMF/EIB/EU* excludes IMF, EIB, and EU.² The explanatory variable of interest is *crisis intensity*, and measures of crisis intensity are described below.

Measuring Crisis Intensity

Measurement of crises is partly science, partly art (Gerber 2009). In “Assessing Early Warning Systems: How Have They Worked in Practice?” (2004), Berg, Borensztein, and Pattillo also say that the specification of early warning signal models involves a number of decisions that, while guided in some way by economic theory, are largely empirical and judgmental in nature. For instance, in defining currency crises, in-house IMF models adopt a relatively long horizon (two years) but the time horizon of private sector models (like Goldman Sachs’ GS-Watch, Credit Suisse First Boston’s Emerging Markets Risk Indicator, the Deutsche Bank Alarm Clock) is shorter (one to three months), as is sometimes the criterion used for defining crisis events (Berg, Borensztein, and Pattillo 2004). Both discrete and continuous measures have been used to define crisis, with different studies using different criteria and time horizons to model crisis events. Because it is unlikely that any simple formula, however well thought out, will always be successful in picking out crisis periods in the data (Berg, Borensztein, and Pattillo 2004), this evaluation uses multiple definitions of crisis and tests the robustness of conclusions to these different criteria.

Crisis Defined as GDP Decline: Phase I and Phase II Evaluations

A frequently used indicator to measure incidence of the recent global financial crisis is the drop in GDP, which has been used in the previous crisis response evaluation by IEG as well as in other studies on the global financial crisis.³ In the analysis that follows, GDP decline is measured as the difference between the GDP growth rate forecast for 2009 from the April 2008 IMF *World Economic Outlook* and actual GDP growth in 2009, from the October 2010 *World Economic Outlook*.⁴ Using forecast changes helps bypass many otherwise difficult issues—for example, to control for differences in growth rates that are due to differences in countries’ levels of development or cyclical positions, or other factors unrelated to the crisis (Berkmen and others 2009).

The first crisis response evaluation, when comparing the intensity of Bank response with the intensity of crisis among borrowing countries in FY09–10, concluded that the volume of Bank response was in line with crisis severity. Applying the thresholds used in CR1⁵ to the measure of GDP decline—to classify countries into highly, moderately, and least affected—a similar result is not obtained. Alternatively, if the first one-third of countries are classified as highly-affected, the next one-third as moderately-affected, the last one-third as least-affected, the results are very different from the CR1 analysis. Similarly, if countries are grouped by crisis intensity quartile and quintile, the results are no longer the same as before.⁶

In “International Financial Integration and Crisis Intensity” (2011), Rose criticizes threshold-based measures of crisis as these are treated as observed without error. In actuality, the severity of a crisis is like to be a continuous variable, and one that is only observed with error. In this analysis, therefore, lending allocation patterns are analyzed against continuous measures of crisis. The findings cited in the main report that compare allocation of Bank lending across rank-ordered groupings of 5, 10, or 157, are meant to illustrate in a simpler manner the conclusions arrived at through regression analysis, where crisis intensity is treated as a continuous measure.⁷

Multidimensionality of Crisis

Crises come in many forms (for example, banking, debt, and currency crises) and can quickly change from one type to another. For example, the recent crisis began as a banking crisis, yet it appears to be changing into a sovereign debt crisis in parts of the Euro zone. The external debt crisis that began in Mexico in August 1982 quickly took on elements of an exchange rate crisis and a banking crisis, while the Asian crisis of July 1997 was first an exchange rate crisis then a banking crisis (Gerber 2009). The multidimensional nature of the crisis, and its manifestations across countries, is suggested by the weak to moderate correlations between decline in output (real indicator) and many other indicators of crisis (correlation matrix is available upon request). For instance, countries that had some of the highest decline in GDP growth (Azerbaijan, Bulgaria, Georgia, Moldova, and Slovak Republic) were not seriously affected by currency depreciation. However, countries that did not have a significant decline in GDP growth (India, Indonesia, Nigeria, and Poland) were affected by significant currency depreciation. In the case of the banking sector, countries with a significant GDP decline (Grenada, Mexico, Slovak Republic, and Turkey) did not face heavy deposit losses in their banking sector. Albania, Dominican Republic, Egypt, Seychelles, and Tajikistan, meanwhile, had relatively high deposit losses, but their decline in GDP growth was much less severe.

Not only can countries be exposed to any of the different types of crisis described above, they can also be afflicted with multiple crises simultaneously. Since crises in countries can have multiple manifestations, looking at individual indicators in isolation may not tell a convincing story. The Asian financial crisis of 1997 is perhaps the most vivid illustration of such crises, but there have been many similar episodes throughout history, across a wide geographical range, such as the Mexican crisis of 1994, and the Turkish crisis of 2000 (Shin 2005).⁸

The crisis indicators used in the analysis for this report recognize the multidimensionality and multiplicity of crisis, and have been selected based on a review of the literature on crisis measurement. That is, the indicators selected have been used to measure crises by other researchers, and interested persons must refer to cited publications for a discussion of the reliability or reliability tests or checks of the ability of these measures to predict past crisis episodes. Furthermore, indicators selected here are for the most part meant to be manifestations of shock to the economy, not leading indicators of such a shock or policy responses to such an event.

Variables Used to Measure Crisis Intensity and their Definitions

Decline in GDP Growth: Two alternative measures of GDP growth decline are used. The first measure of decline in GDP growth is measured as the difference between GDP growth rate forecast for 2009, as given in the April 2008 edition of the World Economic Outlook, versus actual GDP growth in 2009.⁹ The alternative measure of decline in GDP growth is measured as the difference between growth rate in 2009 versus average growth rate in 2005–07. The two measures are highly correlated (a correlation coefficient of 0.89).

Decline in Private Credit: Aside from being an indicator of distress in the banking sector,¹⁰ the World Bank (2011 jobs crisis study) identifies credit market shocks as one of the transmission channels of the economic crisis on household well-being. In the present analysis, the decline in private credit is defined as both decline in growth rate and as percentage decline in levels. The measures of credit decline used in the analysis are (i) difference in real private credit growth rate between July 2008–December 2009 and January 2005–December 2007, and (ii) percentage change in peak to trough real private credit levels between January 2007–March 2008 and July 2008–December 2009. The peak-to-trough measure is intended to measure amplitude of the crisis and accounts for the fact that countries entered and exited the crisis at very different times (Llaudes and others 2010). However, peak-to-trough measures do not take into account the duration of the crisis. Some countries may have rebounded from a sharp

decline very quickly, but others with less severe declines may have taken longer to recover. The analysis here uses both the amplitude and duration-based measures. The correlation coefficient between these measures is 0.41.

Decline in Deposits: Banking sector distress has implications for both the real sector and government finances.¹¹ In “Responding to Banking Crises: Lessons from Cross-Country Evidence” (2010), Detragiache and Ho say that “one of the starkest consequences of banking crises is their effect on government finances. As the authorities try to shore up the banking sector, fiscal resources are often deployed to guarantee bank liabilities, provide new capital to cover losses, and offer other forms of assistance.” For example, the fiscal cost net of recoveries of the Thai crisis in 1997–98 was about 35 percent of GDP, although the cost of the Turkish crisis in 2000 was about 30 percent of GDP (Laeven and Valencia 2008). Regarding banking crisis impact on the real sector, Cardarelli, Elekdag, and Lall in “Financial Stress, Downturns, and Recoveries” (2009) say: “Slowdowns or recessions preceded by banking-related stress tend to involve two to three times greater cumulative output losses and tend to endure two to four times as long.” For instance, with the banking crisis in Latvia, the output losses stand out at over 100 percent of potential GDP (Laevan and others 2010). The present analysis defines decline in deposits as both decline in growth rate and as percentage decline in levels. The measures of deposits decline used in the analysis are difference in real deposit growth rate between July 2008–December 2009 and January 2005–December 2007, and percentage change in peak to trough real deposit levels between January 2007–March 2008 and July 2008–December 2009.

Increase in Foreign Exchange Rate: This is defined as percent change in nominal exchange rates (against U.S. dollars) from trough (January 2007–March 2008) to peak (July 2008–December 2009) levels. An alternative measure defined as change in foreign exchange growth rates between 2005–07 and July 2008–December 2009 is also used. Foreign exchange rate increases have been commonly used in the literature to measure exchange market pressure.¹²

Decline in Foreign Reserves: This is defined as percent change from peak (January 2007–March 2008) to trough (July 2008–December 2009) levels. An alternative measure defined as change in foreign exchange growth rates between 2005–2007 and July 2008–December 2009 is also used. Although foreign reserve declines are used commonly in the crisis measurement literature, its use can be problematic. On one hand, the inclusion of reserves as a measure of crisis incidence allows one to observe an increase in market pressure that may not otherwise be captured through exchange rate moves. On the

other hand, any measure of foreign reserves decline can be misleading for the following two reasons: First, measured reserves go up when central banks draw credit under IMF programs, many of which are initiated during the crisis.¹³ Second, movements in exchange rates cause severe valuation distortions in reserves (Frankel and Saravelos 2010).¹⁴

Decline in Exports: A key channel of transmission was the collapse in global merchandise trade in the first quarter of 2009. Demand for durable goods in developed countries declined, and prices of oil and minerals fell drastically. Disruptions affecting trade finance and international supply chains were often quoted as a contributing factor to the steep fall of trade flows (Maurer, Escaith, and Auboin 2009). Exports decline is defined in this analysis as change in export growth rates between 2005–07 and 2009, as well as percent change in export levels between 2005–07 and 2009.¹⁵

Decline in Private Consumption: Research has shown that past crises have lasting effects on household welfare.¹⁶ According to Ravallion and Chen (2009), the recent crisis will add 53 million people to the 2009 count of the number of people living below \$1.25 a day and 64 million to the count of the number of people living under \$2 a day. Given current growth projections for 2010, there will be a further impact on poverty in that year, with the cumulative impacts rising to an extra 73 million people living under \$1.25 a day and 91 million more under \$2 a day by 2010.¹⁷ Because overcoming poverty remains the core mission of the World Bank, it may be that increases in Bank lending respond to the extent to which poverty rates are or will be affected in client countries.¹⁸ However, it is difficult to reliably measure poverty impacts of the crisis since data (based on consumption expenditure surveys) are not yet available. Moreover, as pointed out by Ferrera and others (2008), in the absence of this data, it can be difficult to predict the welfare consequences of crises. Using GDP can be problematic for predicting the short-term impacts on poverty since the shock to GDP is unlikely to be passed on fully to consumption in the short term (Ravallion 2009). Given the data limitations, the present analysis uses private consumption data from national accounts to proxy for changes in household welfare.¹⁹ In doing so, it follows Lane and Milesi-Ferretti (2010) who model crisis incidence based on growth in private consumption (among other indicators). Rose and Spiegel (2009 update) consider this to be an indicator of welfare. Change in welfare is defined here as percentage point change in private consumption growth rate between 2005–07 and 2009. An alternative measure, percent change in private consumption per capita levels between 2005–07 and 2009, is also used.²⁰

Decline in Investment Growth: Following Lane and Milesi-Ferretti (2010), the present analysis includes changes in do-

mestic investment growth rate as an indicator of crisis. The precise definition of this indicator as used here is percentage point change in domestic investment growth rate in 2009 versus 2005–07.

Composite Crisis Indicators: The prevalence of multiplicity of crises in a country (as discussed before) motivates the construction of a composite crisis indicator.²¹ Composite crisis indicators have been used in a number of studies. Rose and Spiegel (2009) use changes in GDP growth, credit ratings, and stock markets to construct a composite indicator using factor analysis. The exchange market pressure index, one of the most popular and prevalent measure of crisis, aggregates movements in exchange rate, reserves, and interest rates. Lane and Milesi-Ferretti (2010) create a composite indicator based on changes in output, demand, and export growth employing rank averages. *Following the literature*, composite scores for this analysis are based on rank averages and principal factor analysis.²² The indicators used to create these indices are: decline in GDP growth rate, decline in deposit growth rate, decline in credit growth rate, decline in export growth rate, percent increase in trough-to-peak foreign exchange rates, percent decline in peak-to-trough foreign exchange reserves, decline in private consumption growth rate, and decline in domestic investment growth rate. The correlation between the two measures is > 0.90 .

Also examined were trough-to-peak changes in Emerging Markets Bond Index spreads²³ and peak-to-trough changes in stock market indices,²⁴ as well as average changes in stock market volatility (constructed based on the definition used in the IMF's Financial Stress Index), trough to peak changes in country risk ratings (based on IFC risk assessment data),²⁵ peak-to-trough changes in industrial production growth rates, and changes in unemployment rate.²⁶ However, since data for some of these indicators are not available for most countries,²⁷ these have not been used in econometric analysis in chapter 2 (summary statistics and other analysis are available on request).

The *control variables* used in the econometric analysis include: (i) *Size of economy in 2005–07* measured as share of country's GDP in total GDP of all borrowers in the sample in 2005–07; (ii) *Log of population*; (iii) *IBRD eligibility* (1 if country is IBRD eligible and 0 otherwise). There is limited flexibility in IDA allocation processes compared to IBRD, so IBRD countries affected by the crisis would likely be in a better position to avail higher increments in lending; (iv) *Fiscal deficit as percent of GDP in 2007–08*. All things being equal, countries with weak fiscal positions pre-crisis may be more constrained in their countercyclical response and are likely faced with higher roll-over risk;²⁸ (v) *CPIA score in 2007*.

Countries with better institutional capacity may be able to attract more donor lending all other things being equal; (vi) *Country risk rating between January 2007 and March 2008*. Less risky borrowers may be able to attract more financing all else being equal; (vii) *Log of GDP per capita in 2005–07*. Because poverty reduction is a core mandate of the Bank, poorer countries may have a differential incremental lending pattern compared to middle-income countries, either because of reallocation limits in the IDA allocation process, or the Bank may want to protect poorer countries from crisis impacts more. On the other hand, poorer countries tend to have limited social protection infrastructure, and the pattern of Bank response to poorer countries may be limited by such institutional realities; (viii) *Lending in 2005–07*. All things being equal, it may be that countries where a donor has been more engaged in the past find it easier to borrow more, or a donor may wish to first protect clients with a bigger share in its portfolio; (ix) *Share of institution in major donor lending*. All things equal, countries may prefer to borrow more from donors that they have been partial to in the past and with whom they have a relatively deeper engagement; (x) *Pre-Crisis Level of Crisis Indicator*; (xi) *Donor Fixed Effects* to capture compositional effects and to also net out some of the effects that lending by particular donors in 2009–10 affect the pattern of incremental bank response during the period; (xii) *Regional Fixed Effects*. Not all controls are used simultaneously. Refer to the section on Estimation Strategy for the specifications.

Measures of Fiscal Vulnerability

As mentioned in the report, Bank lending decisions may be influenced not just by magnitude of crisis severity but also the extent to which the country is in a position to respond to such a shock (through fiscal stimulus or liquidity injections, among others). Traditional measures for measuring financing needs are fiscal deficits and debt to GDP (Baldacci and others 2011; Hemming and others 2003).²⁹ In the econometric analysis, fiscal deficit in 2007–08 has been used as a proxy for fiscal vulnerability at the onset of the crisis.³⁰ However, a country’s ability to secure higher lending would be affected not only by its financing needs but also its absorptive capacity. Hence, the analysis examines (although in a limited way) fiscal space, defined as total public debt divided by average tax revenues during 2000–07, and measuring the number of tax years required to fully pay the stock of public debt if all revenues are assigned for that purpose (Didier and others 2010; Aizenman and Jinjarak 2010).

Baldacci and others (2011) say, “In emerging economies. The correlation between the fiscal stress index and probability of experiencing a fiscal crisis is driven primarily by the asset

and liability management variables for these countries.” For this reason, short-term debt-to-total debt and foreign reserves over short-term debt have been examined, albeit in a limited way. A large share of short-term debt means more exposure to rollover risks in the near term. This is particularly true if current financial market conditions are not favorable. For emerging economies, higher reserves permit countries to address direct financing of payments imbalances, or indirectly regulate the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate or for other purposes. Two reserves based measures used here are: foreign reserves over imports and foreign reserves over short-term debt. In the literature on early warning signals, the best performing of the reserve measures was found to be expressed relative to short-term debt (Frankel and Saravelos 2010). This is consistent with the Guidotti Rule that tells emerging market central banks to hold reserves equal to at least the amount of debt maturing within one year (Frankel and Saravelos 2010; Guidotti 2003). However, the analysis on most fiscal vulnerability indicators (except fiscal deficit) is rudimentary and limited by data availability, so findings are to be treated with caution. In the econometric analysis, only fiscal deficit (2007–08) is used as an indicator of financing vulnerability, as most complete data is available for this indicator.³¹

Estimation Strategy—Relationship between Crisis Intensity and Response

The analysis of the relationship between incremental lending vis-à-vis crisis intensity is analogous to a difference in difference approach. A specification in this setup will be:

$$Y = B_0 + B_1 * D + B_2 * t + B_3 * D * t + B_4 * X_m + \dots + B_n * X_k + e$$

where t is time (1=crisis period, 0=pre-crisis period), Y is the outcome being assessed (lending), D is the main explanatory variable of interest (crisis indicator), X corresponds to covariates, e is the error term, and B_3 is the parameter of interest.

The first step was to apply bivariate analysis, using both parametric and non-parametric methods,³² to understand how increase in lending correlates with crisis intensity. The smoothed lines from non-parametric analysis are presented in the report for illustrative purposes only (however, figures B.2–B.4 reproduce these figures from the main report and include 90 percent confidence interval bounds for interested readers). The next step was to further refine the analysis by controlling for baseline country characteristics and possible determinants of incremental lending. The multivariate analysis is based on parametric ordinary least squares and provides the basis for statements about correlation and associa-

tion in the report.³³ The main specifications (in a convenient regression framework) are:

- (1) $\Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Population} + B_4 * \text{IBRD Eligibility}^{34} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared}^{35} + e$
- (2) $\Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Population} + B_4 * \text{IBRD Eligibility} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared} + B_7 * \text{Pre-Crisis Fiscal Deficit} + e$
- (3) $\Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Population} + B_4 * \text{IBRD Eligibility} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared} + B_7 * \text{Pre-Crisis Fiscal Deficit} + B_8 * \text{Pre-Crisis Level of Crisis Indicator} + e$
- (4) $\Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Population} + B_4 * \text{IBRD Eligibility} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared} + B_7 * \text{Pre-Crisis Fiscal Deficit} + B_8 * \text{Pre-Crisis CPIA Score} + e$

Other models using additional or different sets of controls are discussed under the robustness section. Coefficients on the crisis indicator for specifications 1–4 are summarized in tables B.9 and B.11 and further detailed regression results are available on request.

Testing Identification Assumptions

The extent to which B1 reliably captures the relationship between incremental lending and crisis intensity in this arrangement depends on satisfying some identification assumptions.

Parallel trending: To test this assumption, a placebo test was done to check for any systematic differences in increase in World Bank lending in FY06–08 versus FY03–05 vis-à-vis the measures of crisis intensity while controlling for size of the economy, population, IBRD eligibility, lending volumes in the previous period, and regional fixed effects. The coefficient on the crisis intensity variable is statistically insignificant, suggesting no systematic differences in time trends between more affected and less affected countries. Results are available on request.

Time varying changes: First, the assumption that selection bias is unchanging over time is problematic, especially if changes in lending due to the crisis are a function of initial conditions, which also influenced crisis incidence. For instance, if middle-income countries were hit by the crisis due to their linkages with international markets, and if increase

in lending depends on country's middle-income country/low-income country status (middle-income countries are IBRD-eligible and not constrained by the resource envelope that IDA countries are), this will bias the estimate. Consequently, the analysis should control for initial conditions (Ravallion 2008; Jalan and Ravallion 1998) as seen in specifications 1–4 and later in specifications 5–10 in the section on robustness tests. It is important to note that under the difference in difference framework, time varying changes that would affect allocation of incremental bank lending would lead to biased results insofar as these changes that happened alongside the crisis systematically affect more affected countries compared to lesser affected ones, or vice versa. For instance, if donors decide to coordinate their efforts in crisis-affected countries, this would affect the level of incremental lending by an institution and would bias the estimates. A discussion of IFI cooperation is in box 2.4 in the main report where some country examples of IFI cooperation have been cited. However, data are not available on donor coordination for all countries and therefore it cannot be accounted for in the econometric analysis.³⁶ One way to alleviate the problem is by introducing donor fixed effects, whereby each country is assigned a 1 for donor X if it received any lending from donor X in 2009–10. Also, not all time-varying changes are measurable and/or observable (such as, political economy of allocation decisions), nor could an appropriate instrument be identified to address this issue. This is a limitation of the analysis, and therefore, the parameter of interest B1 must not be interpreted as a causal effect. Having said that, the robustness of the association between lending increase and crisis intensity across different specifications and measures provides the basis on which conclusions about correlations are drawn.

Robustness Checks

Multiple definitions of crisis intensity were used to test the robustness of the findings to the use of different indicators. Granted that crisis is observed with error, the robustness of the findings to using these alternative measures lend credence to the conclusions about the correlation (not to be confused with causality) between incremental lending and crisis intensity. The data were also inspected for extreme outliers, which were removed for the analysis to ensure that the results are not driven by those observations.

In addition, models were run using additional controls (as described under Data and Measurement) but not used in specifications (1)–(4). These included regional fixed effects; donor fixed effects; pre-crisis level of country credit risk;³⁷ share of institutional lending among total lending by major donors in 2005–07 as a proxy for baseline “demand”

for institutional financing, and country's income (log of GDP per capita). The additional specifications are:

$$(5) \Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Population} + B_4 * \text{IBRD Eligibility} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared} + B_7 * \text{Pre-Crisis Fiscal Deficit} + B_8 * \text{Pre-Crisis Level of Country Risk} + e$$

$$(6) \Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Population} + B_4 * \text{IBRD Eligibility} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared} + B_7 * \text{Pre-Crisis Fiscal Deficit} + B_8 * \text{Pre-Crisis Share in Total Donor Lending} + e$$

$$(7) \Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Log of GDP per capita} + B_4 * \text{IBRD Eligibility} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared} + B_7 * \text{Pre-Crisis Fiscal Deficit} + e$$

$$(8) \Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Population} + B_4 * \text{IBRD Eligibility} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared} + B_7 * \text{Pre-Crisis Fiscal Deficit} + B_8 * \text{EAP} + B_9 * \text{ECA} + B_{10} * \text{LCR} + B_{11} * \text{MNA} + B_{12} * \text{SAR} + e$$

$$(9) \Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Size of Economy in 2005-07} + B_3 * \text{Population} + B_4 * \text{IBRD Eligibility} + B_5 * \text{Pre-Crisis Lending Volume} + B_6 * \text{Pre-Crisis Lending Volume squared} + B_7 * \text{Pre-Crisis Fiscal Deficit} + B_8 * \text{IMF borrower in 2009-10} + B_9 * \text{ADB borrower in 2009-10} + B_{10} * \text{AfDB borrower in 2009-10} + B_{11} * \text{EBRD borrower in 2009-10} + B_{12} * \text{EIB borrower in 2009-10} + B_{13} * \text{EU borrower in 2009-10} + B_{14} * \text{IDB borrower in 2009-10} + B_{15} * \text{IFC/MIGA borrower in 2009-10} + e$$

$$(10) \Delta Y = B_0 + B_1 * \text{Crisis Intensity} + B_2 * \text{Crisis Intensity squared} + B_3 * \text{Size of Economy in 2005-07} + B_4 * \text{Population} + B_5 * \text{IBRD Eligibility} + B_6 * \text{Pre-Crisis Lending Volume} + B_7 * \text{Pre-Crisis Lending Volume squared} + B_8 * \text{Pre-Crisis Fiscal Deficit} + B_9 * \text{IMF borrower in 2009-10} + B_{10} * \text{ADB borrower in 2009-10} + B_{11} * \text{AfDB borrower in 2009-10} + B_{12} * \text{EBRD borrower in 2009-10} + B_{13} * \text{EIB borrower in 2009-10} + B_{14} * \text{EU borrower in 2009-10} + B_{15} * \text{IDB borrower in 2009-10} + B_{16} * \text{IFC/MIGA borrower in 2009-10} + e$$

The results were mostly robust to the use of these new/additional controls: in some cases, the inclusion of donor or regional fixed effects was found to dilute the statistical significance of the results (though not the direction). The fact that some individual donors may be driving the results is elaborated in the discussion of patterns of MDB lending (each MDB being treated separately). A summary of regression results for specifications 5–10 is presented in tables B.10

and B.12. Some of the regression models are presented in full in tables B.16–B.19. Detailed tables for other specifications are available on request.

As can be seen in table B.8, the increment in World Bank, IMF, IFC, and MIGA lending is defined as the difference between FY05–07 versus FY09–10 lending volumes, while incremental ADB, AfDB, EIB, EBRD, EU, and IDB lending is defined as the difference between CY05–07 and CY09–10 (in the analysis, the crisis period starts from the second quarter of CY2008). Although data are not available for these donors on a fiscal year basis, the analysis was redone defining incremental ADB, AfDB, EIB, EBRD, EU, and IDB lending as the difference between CY05–07 and CY08–10 as several donors like EBRD started making crisis loans at the end of CY08.³⁸ The results for dependent variable Incremental Lending by Other Major Donors (excluding IMF/EIB/EU) measured as the difference between annual average lending in CY05–07 versus CY08–10 is summarized in table B.13. As can be seen, results are robust to using CY08–10.

Heterogeneity of “Effects”

To see if incremental Bank lending was (i) differential for IBRD versus non-IBRD countries,³⁹ (ii) varied for countries with differential fiscal deficit positions before the crisis, the same analysis as above was done but with the introduction of interaction terms between (i) the measure of crisis intensity and the indicator variable for if a country is IBRD/Graduate, and (ii) the measure of crisis intensity and size of fiscal deficit as a percentage of GDP in 2007–08.⁴⁰ A summary of results for IBRD/Graduate countries is presented in table B.14. Detailed regression results are available upon request. Because blend countries also receive IBRD lending, IBRD and IDA commitments were also looked at separately.

Comparison with Other IFIs/MDBs

So far, models of incremental World Bank lending vis-à-vis crisis intensity and other controls have been run separately from models of incremental lending by other major donors. Whereas the preceding analysis tells about the within-group relationship, it is difficult to make any judgments about between-group comparisons based on the results presented in tables B.9 and B.10 for the World Bank and in tables B.11–B.13 for Other Major Donors excluding IMF, EIB, and EU. To test if the slopes for the two groups are parallel (that is, are the changes in lending response to changes in crisis intensity same for the two groups), the data for the two groups was pooled and introduced (i) a dummy for World Bank, which takes the value of 1 if the dependent variable is measured as incremental World Bank lending, and 0 if the dependent variable is measured as incremental Other Major Donor

Lending excluding IMF, EIB, and EU, and (ii) an interaction term between the measure of crisis intensity and the dummy for World Bank. The results of this analysis comparing the World Bank with other major donors excluding IMF, EIB, and EU are presented in tables B.15 and B.16. The analysis suggests that, on average, incremental lending as a percentage of GDP by Other Major Donors excluding IMF, EIB, and EU was mostly higher for countries with higher crisis effects compared to the World Bank, except for countries affected by exchange market stress.⁴¹ Some caveats apply. First, the analysis is limited in scope (for instance, it did not introduce an interaction term between the World Bank dummy and all variables in the model).⁴² Second, there may be differences among these institutions in terms of mandates, allocation policies, objective functions, focus on crisis, financial capacities, instruments, pricing, and other factors that cannot be fully addressed in the quantitative analysis.⁴³ Hence, the findings should be interpreted with caution.

In addition, the analysis also looked at the sub-sample of borrower countries common to World Bank and ADB, IDB, AfDB, EBRD (treated separately). The subsample analysis is limited by small sample sizes and a full set of controls could not be used. Instead, the data were examined more carefully to identify similarities and differences between the institutions in terms of concentration, share and volume of incremental lending to borrowers with differential crisis intensities (quartile-based, and so forth) and comparison with pre-crisis shares and volumes (section 3 of this appendix).

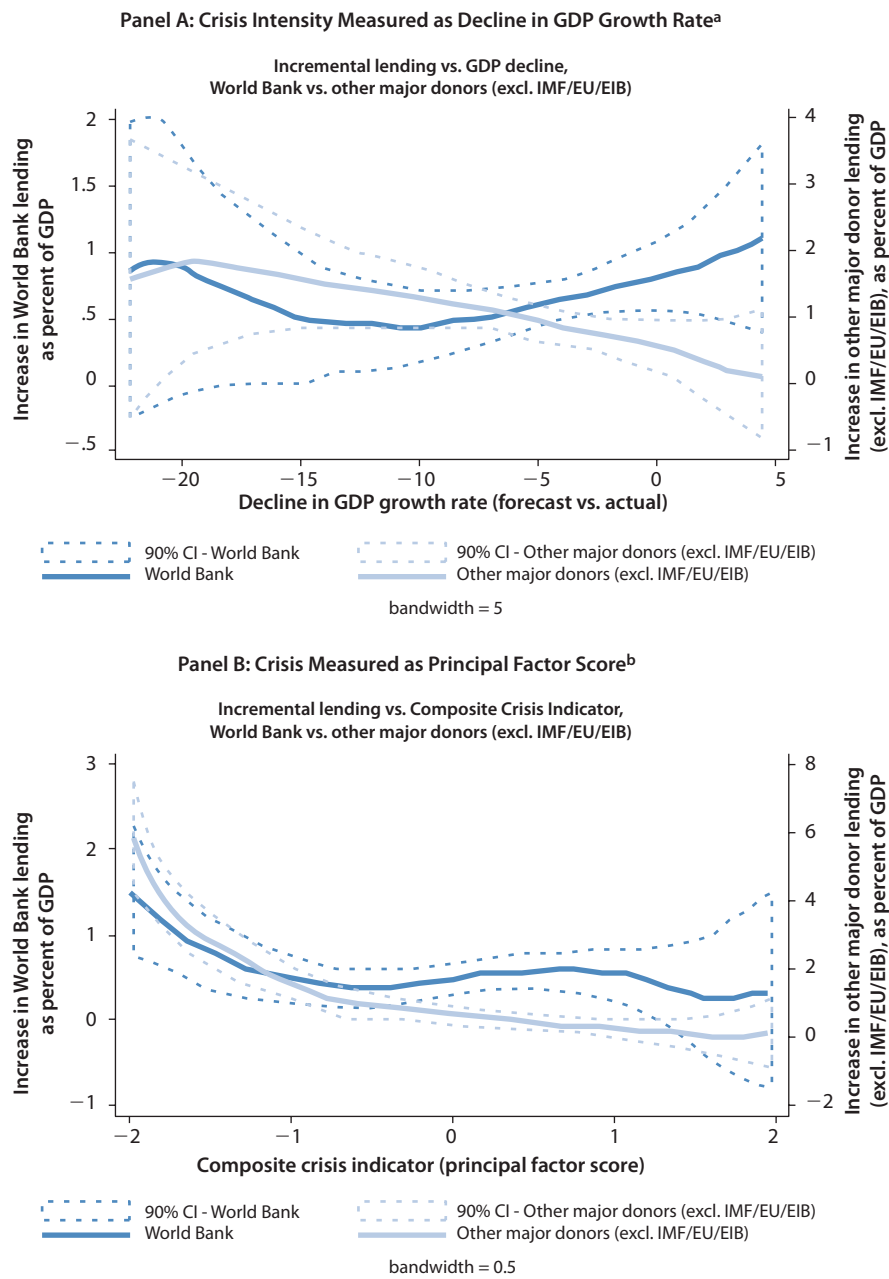
Limitations/Caveats

For data and methodological reasons, these findings are intended to be indicative, and should be interpreted as cor-

relations, not causal effects. Caution must also be exercised when comparing World Bank lending patterns with that of other IFIs and MDBs. Most of the analysis is predicated on within-group comparison (that is, what was the relationship of crisis intensity and incremental lending for the World Bank) while some limited analysis is done to inform between group comparisons (that is, was the pattern of lending response to crisis same for both the World Bank and other IFIs/MDBs). In addition, there are differences among these institutions in terms of mandates, focus on crisis, financial capacity, instruments, pricing, and so forth that are not completely addressed by the econometric analysis. The section preceding the quantitative analysis in chapter 2 in the main report provides a qualitative discussion of the differences and similarities across IFIs and MDBs that would help with interpretation and contextualization of regression results. Moreover, there are factors that cannot be included (for example, political economy of decision-making), some issues of measurement error (for example, arising from the definition of the crisis period, the fact that crisis is observed with error, among others), and data limitation (for example, small number of observations when it comes to subsample analysis, data on all indicators are not available for all countries) that have implications for the analysis. For these reasons, several robustness exercises were done as indicated above to ensure that the conclusions are more or less consistent across different measures and strategies. Lastly, the analysis is intended to be descriptive; as mentioned above, it is also a partial picture of overall Bank assistance (these other aspects are addressed in chapters 3–6) and a prescriptive interpretation should be avoided.

TABLE B.8 List of Key Indicators and Data Sources			
Key indicators mentioned in the chapter	Definition used in the chapter	Data source	Examples of use of indicators in literature
Defining crisis			
GDP	Forecast for GDP growth in 2009 made before the crisis versus actual GDP growth in 2009	WEO- Apr 2008, Oct 2010	Berkmen and others 2009
Credit	Y-o-y credit growth between Jan 2005–Dec 2007 versus y-o-y credit growth between Jul 2007–Dec 2009. Credit levels are deflated by average annual CPIA	IFS, WEO	Boyd and others 2009
Deposits ^a	Y-o-y deposit growth between Jan 2005–Dec 2007 versus y-o-y deposit growth between Jul 2007–Dec 2009. Deposit levels are deflated by average annual CPIA	IFS, WEO	Laeven and Valencia 2008; Boyd and others 2009
Stock market index	Peak stock market index between Jan 2007–Mar 2008 versus trough stock market index between Jul 2008–Dec 2009	Bloomberg	Frankel and Saravelos 2010; Rose and Spiegel 2009
EMBI spread	Trough EMBI spread between Jan 2007–Mar 2008 versus peak EMBI spread between Jul 2008–Dec 2009	Datastream	IMF Financial Stress Index
Foreign exchange rate	Trough nominal exchange rate against USD between Jan 2007–Mar 2008 versus peak nominal exchange rate against USD between Jul 2008–Dec 2009	GEM	See note 14
Foreign reserves	Peak foreign reserves (less gold) levels between Jan 2007–Mar 2008 versus trough foreign reserve levels (less gold) between Jul 2008–Dec 2009	GEM	See note 14
Exports	Y-o-y export growth between 2005–07 versus y-o-y export growth in 2009	UNSD ATT	Lane and Milesi-Ferretti 2010
Private/ household consumption	Y-o-y private consumption growth between 2005–07 versus y-o-y private consumption growth in 2009	UNSD	Lane and Milesi-Ferretti 2010
Domestic investment	Y-o-y growth in gross fixed capital formation between 2005–07 versus y-o-y growth in gross fixed capital formation in 2009	UNSD	Lane and Milesi-Ferretti 2010
Defining financing needs			
Fiscal deficit	Fiscal deficit in 2007–08	WEO	Baldacci and others 2011
Roll-over Risk (debt based indicator)	Short-term debt as a ratio of external debt stock in 2007	GDF	Baldacci and others 2011
Fiscal space	Public debt in 2007 as a ratio of average tax revenues in 2000–07	WEO, GDF	Didier and others 2010
Roll-over Risk (reserve based indicators)	(i) Trough reserves over imports in Jan 2007–Mar 2008; (ii) reserves over short term debt in 2007	GEM, WDI, GDF	Frankel and Saravelos 2010
Lending data for major donors^b			
Incremental ADB lending	Annual average new lending in CY05–07 versus CY09–10	ADB	
Incremental AfDB lending	Annual average new lending in CY05–07 versus CY09–10	<i>Compendium of Statistics on Bank Group Operations</i> , AfDB website	
Incremental EBRD lending	Annual average new lending in CY05–07 versus CY09–10	EBRD	
Incremental EIB lending	Annual average new lending in CY05–07 versus CY09–10	EIB Annual Reports 2005–09. 2010 data provided directly by EIB	
Incremental EU lending	Annual average commitments in CY05–07 versus CY09		
Incremental IDB lending	Annual average new lending in CY05–07 versus CY09–10	IDB	
Incremental IFC lending	Annual average new lending in CY05–07 versus CY09–10	IFC	
Incremental IMF lending	Annual average new lending in CY05–07 versus CY09–10		
Incremental MIGA lending	Annual average new lending in CY05–07 versus CY09–10	MIGA	
Incremental World Bank lending	Annual average new lending in CY05–07 versus CY09–10	BW	
<p>Note: WEO = IMF Economic Outlook; y-o-y = year-on-year.</p> <p>a. Following Laeven and Valencia (2008), demand deposits (IFS line 24) and time, savings and foreign currency deposits (IFS line 25) have been added up.</p> <p>b. Incremental lending has been measured in terms of percent change, change in absolute levels, and change in commitments as percent of GDP.</p>			

FIGURE B.2 Incremental Bank Group Lending Relative to Levels of Crisis Comparisons with Other Major Donors (excl. IMF, EU, and EIB): Nonparametric Regression Lines with 90% Confidence Interval Bounds



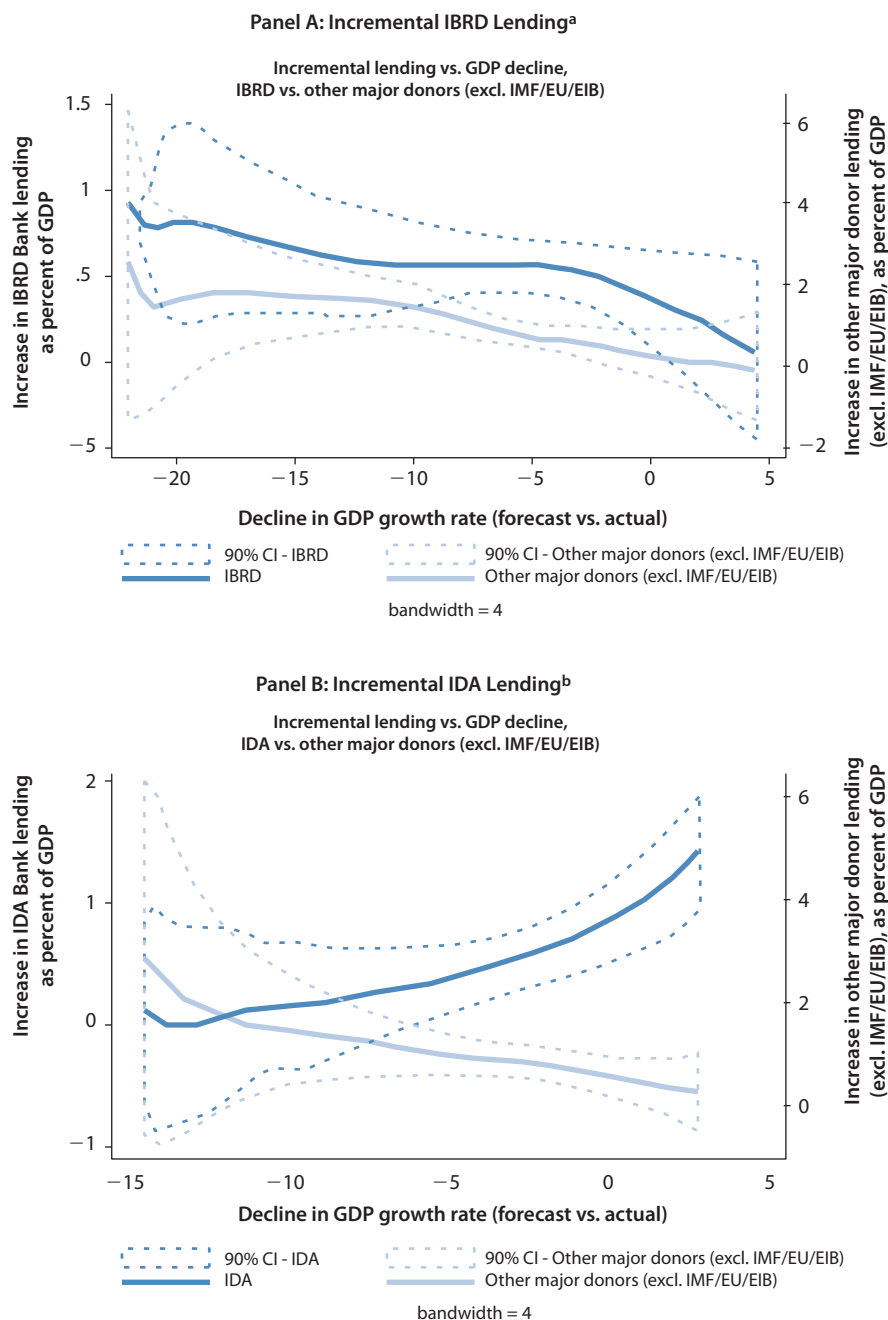
Source: IEG analysis.

Note: Figures B.2-B.6 show smoothed lines from kernel-weighted local linear regressions. The kernel used is epanechnikov, and bandwidths used are specified in the graph. The graphs here are reproductions of graphs in the main report, but 90 percent confidence interval bounds have been added to allow readers to see if the patterns are of statistical significance or not. These smoothed lines as depicted in the main report are for illustrative purposes, while the analysis of the relationship between crisis intensity and incremental lending is based on multivariate parametric regressions. However, these smoothed lines are a good starting point to understand the bivariate relationship between crisis and lending, and for informing the functional form of our parametric specifications.

a. Same as figure 2.2 in the main report.

b. Same as figure 2.4 in the main report.

FIGURE B.3 Incremental IBRD and IDA Lending Relative to Levels of Crisis (Measured as GDP Decline): Comparisons with Other Major Donors (excl. IMF, EU, and EIB) Nonparametric Regression Lines with 90% Confidence Interval Bounds

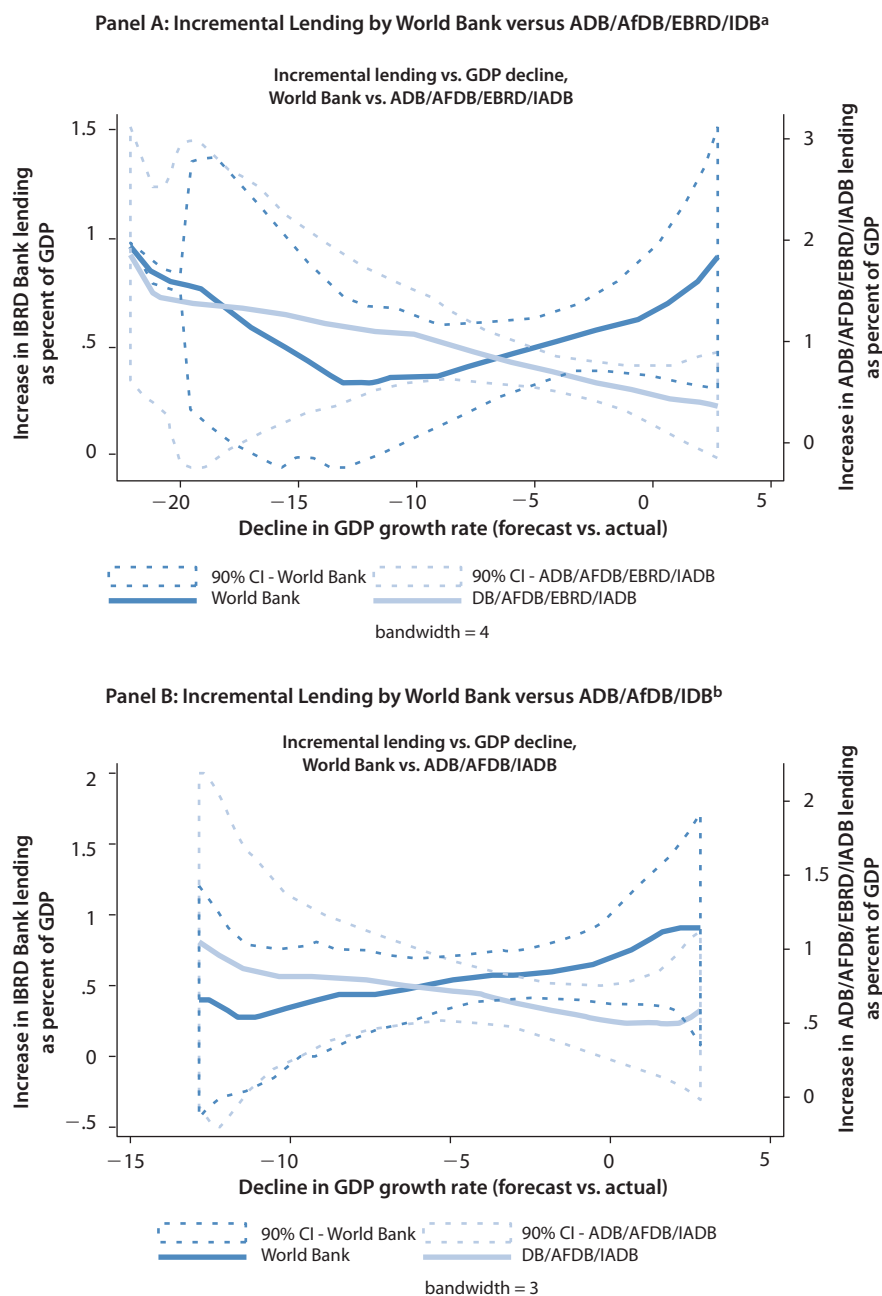


Source: IEG analysis.

a. Same as figure 2.6 Panel A in the main report. The only difference is that this graph does not exclude any outliers, whereas in the main report, three outlier countries with decline in GDP growth more than 18 percentage points (Armenia, Ukraine, and Latvia) are excluded. The next country after these three had decline in GDP growth rate that was 6 percentage points lower.

b. Same as figure 2.6 Panel B in the main report.

FIGURE B.4 Incremental World Bank Lending Relative to Levels of Crisis (measured as GDP decline): Comparisons with Regional Development Banks. Nonparametric Regression Lines with 90% Confidence Interval Bounds



Source: IEG analysis.

a. Same as figure 2.3 Panel A in the main report. The only difference is that this graph does not exclude any outlier countries. The graph in the main report excludes three outlier countries with decline in GDP growth more than 18 percentage points (Armenia, Ukraine, and Latvia). The next country after these three had decline in GDP growth rate that was six percentage points lower

b. Same as figure 2.3 Panel B in the main report.

TABLE B.9 Summary of Regression Results—Dependent Variable: Incremental World Bank Lending Core Specifications (1)–(4)

		Dependent variable: Incremental lending by World Bank (US\$ millions)				Dependent variable: Incremental lending by World Bank as % of GDP			
		Core specifications				Core specifications			
		Model 1	Model 2	Model 3	Model 4	Model 1	Model 2	Model 3	Model 4
Indicators of crisis intensity	Statistics								
Change in GDP growth rate (forecast vs. actual for 2009)	Coeff.	-2.3393	-3.1035	-7.3749	-0.7151	0.01622	0.01825	0.02083	0.02283
	p value	(0.798)	(0.742)	(0.511)	(0.936)	(0.481)	(0.439)	(0.379)	(0.353)
	N	109	107	107	106	109	107	107	106
	R2	0.445	0.445	0.476	0.447	0.211	0.237	0.241	0.243
Composite score—rank averages	Coeff.	-2.7446	-2.6860		-1.9689	-0.0004886	0.0008111		0.002239
	p value	(0.195)	(0.215)		(0.351)	(0.894)	(0.832)		(0.583)
	N	108	106		104	108	106		104
	R2	0.445	0.445		0.449	0.192	0.216		0.224
Composite score—principal factor	Coeff.	-39.595	-43.890		-35.476	-0.02858	-0.009761		0.01921
	p value	(0.575)	(0.553)		(0.631)	(0.823)	(0.943)		(0.888)
	N	89	88		87	89	88		87
	R2	0.432	0.432		0.434	0.246	0.272		0.300
Change in private credit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	-309.87	-290.87	-549.17	-244.46	0.1334	0.1858	0.3600	0.2795
	p value	(0.305)	(0.372)	(0.212)	(0.456)	(0.812)	(0.752)	(0.604)	(0.631)
	N	104	101	100	99	104	101	100	99
	R2	0.441	0.439	0.444	0.445	0.208	0.250	0.269	0.261
% Change in private credit (peak to trough)	Coeff.	-582.81	-596.41	-646.74	-611.86	-0.4635	-0.3920	-0.4508	-0.3353
	p value	(0.182)	(0.223)	(0.218)	(0.215)	(0.615)	(0.683)	(0.651)	(0.730)
	N	104	101	100	99	104	101	100	99
	R2	0.443	0.441	0.444	0.449	0.210	0.251	0.256	0.260
Change in deposit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	-77.842	-85.083	-353.79	-86.974	-0.5621	-0.6307	-0.1106	-0.6287
	p value	(0.795)	(0.790)	(0.380)	(0.787)	(0.453)	(0.416)	(0.941)	(0.411)
	N	103	100	100	99	103	100	100	99
	R2	0.436	0.435	0.438	0.438	0.202	0.247	0.251	0.259
% Change in deposits (peak to trough)	Coeff.	13.549	91.540	161.47	134.64	-0.3903	0.3061	0.5013	0.2794
	p value	(0.966)	(0.793)	(0.659)	(0.703)	(0.632)	(0.712)	(0.565)	(0.735)
	N	105	102	99	100	105	102	99	100
	R2	0.432	0.431	0.438	0.439	0.200	0.247	0.262	0.255

TABLE B.9 Summary of Regression Results—Dependent Variable: Incremental World Bank Lending Core Specifications (1)–(4)—continued

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by World Bank (US\$ millions)				Dependent variable: Incremental lending by World Bank as % of GDP			
		Core specifications				Core specifications			
		Model 1	Model 2	Model 3	Model 4	Model 1	Model 2	Model 3	Model 4
% Change in foreign exchange rate (trough to peak)	Coeff.	642.58*	640.98*		570.79*	0.6678	0.7551		0.6355
	p value	(0.058)	(0.061)		(0.079)	(0.174)	(0.133)		(0.233)
	N	109	107		105	109	107		105
	R2	0.461	0.461		0.464	0.201	0.229		0.229
Change in foreign exchange rate growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	701.60	706.36	847.79	687.33	0.4024	0.3146	0.7632	0.2485
	p value	(0.171)	(0.175)	(0.160)	(0.186)	(0.605)	(0.698)	(0.395)	(0.759)
	N	109	107	107	105	109	107	107	105
	R2	0.448	0.448	0.450	0.455	0.191	0.215	0.224	0.220
Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	–1.6481	–22.355	–157.46	–21.666	0.2127	0.08374	0.4993	0.07630
	p value	(0.986)	(0.817)	(0.292)	(0.824)	(0.484)	(0.801)	(0.480)	(0.822)
	N	100	99	99	97	100	99	99	97
	R2	0.436	0.437	0.439	0.444	0.222	0.243	0.250	0.244
% Change in foreign reserves (peak to trough)	Coeff.	–77.490	–46.868	56.893	–31.711	–0.6521	–0.3731	–0.4940	–0.3874
	p value	(0.723)	(0.834)	(0.817)	(0.885)	(0.135)	(0.456)	(0.370)	(0.456)
	N	101	100	100	98	101	100	100	98
	R2	0.438	0.438	0.454	0.445	0.232	0.251	0.258	0.253
Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff.	–13.375	–23.514	–147.53	–36.450	0.4676	0.3097	0.1943	0.3017
	p value	(0.895)	(0.819)	(0.192)	(0.741)	(0.107)	(0.379)	(0.695)	(0.399)
	N	104	102	102	100	104	102	102	100
	R2	0.436	0.436	0.439	0.445	0.191	0.196	0.197	0.222
% Change in ex-ports—ATT (2005–07 vs. 2009)	Coeff.	–104.13	–118.63	–118.60	–98.808	0.07501	0.08610	0.05616	0.1661
	p value	(0.298)	(0.248)	(0.290)	(0.321)	(0.761)	(0.727)	(0.827)	(0.471)
	N	103	101	101	99	103	101	101	99
	R2	0.439	0.440	0.440	0.449	0.178	0.193	0.197	0.224
Change in private consumption growth rate (2005–07 vs. 2009)	Coeff.	–281.70	–346.14	–743.76	–300.76	–0.7999	0.1890	1.1368	0.4292
	p value	(0.347)	(0.321)	(0.134)	(0.372)	(0.316)	(0.762)	(0.221)	(0.485)
	N	111	108	108	107	111	108	108	107
	R2	0.446	0.445	0.455	0.449	0.163	0.177	0.206	0.205

Note: * p<10% significance level; **5% significance level; ***1% significance level. Model specifications are in the appendix. Each coefficient represents the coefficient on the crisis indicator in a single regression. Full regression tables are available on request. ATT = annual totals table; GDP = gross domestic product.

**TABLE B.10 Summary of Regression Results—Dependent Variable: Incremental World Bank Lending
Additional Specifications (5)–(10)**

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by World Bank (US\$ millions)						
		Additional specifications						
		Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	
Change in GDP growth rate (forecast vs. actual for 2009)	Coeff.	–1.6542	–2.6651	4.9542	–4.0587	–8.0734	–14.068	
	p value	(0.861)	(0.784)	(0.522)	(0.757)	(0.449)	(0.381)	
	N	102	107	107	107	107	107	
	R2	0.456	0.451	0.446	0.450	0.474	0.476	
Composite score—rank averages	Coeff.	–2.0165	–2.3442	–0.7627	–3.7253	–3.7748	–3.4200	
	p value	(0.366)	(0.281)	(0.677)	(0.304)	(0.208)	(0.300)	
	N	101	106	106	106	106	106	
	R2	0.458	0.451	0.443	0.455	0.478	0.479	
Composite score—principal factor	Coeff.	–41.607	–41.682	25.322	–73.740	–81.398	–66.365	
	p value	(0.589)	(0.576)	(0.695)	(0.523)	(0.440)	(0.514)	
	N	83	88	88	88	88	88	
	R2	0.443	0.439	0.436	0.441	0.463	0.468	
Change in private credit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	–264.52	–252.44	–74.024	–425.91	–564.70	–610.64	
	p value	(0.442)	(0.435)	(0.822)	(0.351)	(0.190)	(0.157)	
	N	96	101	101	101	101	101	
	R2	0.454	0.446	0.441	0.451	0.479	0.487	
% Change in private credit (peak to trough)	Coeff.	–519.59	–523.41	–367.28	–606.46	–534.76	–540.15	
	p value	(0.291)	(0.289)	(0.434)	(0.255)	(0.258)	(0.295)	
	N	96	101	101	101	101	101	
	R2	0.456	0.448	0.443	0.450	0.472	0.472	
Change in deposit growth rate (2005–07 vs. Jul 2008– Dec 2009)	Coeff.	–1.4446	–24.595	148.89	–212.01	–281.65	–281.56	
	p value	(0.997)	(0.938)	(0.669)	(0.661)	(0.432)	(0.445)	
	N	95	100	100	100	100	100	
	R2	0.446	0.441	0.439	0.442	0.464	0.464	
% Change in deposits (peak to trough)	Coeff.	149.77	173.64	304.43	107.93	179.33	35.127	
	p value	(0.697)	(0.639)	(0.391)	(0.813)	(0.705)	(0.946)	
	N	97	102	102	102	102	102	
	R2	0.448	0.440	0.440	0.440	0.464	0.465	

Dependent variable: Incremental lending by World Bank as % of GDP						
Additional specifications						
	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
	0.02342	0.01900	0.006558	0.02471	0.01246	0.03000
	(0.356)	(0.425)	(0.785)	(0.397)	(0.688)	(0.477)
	102	107	107	107	107	107
	0.245	0.242	0.258	0.261	0.272	0.281
	0.003006	0.0008705	-0.001874	0.003212	0.002823	0.002838
	(0.478)	(0.820)	(0.638)	(0.526)	(0.614)	(0.596)
	101	106	106	106	106	106
	0.230	0.217	0.241	0.256	0.268	0.268
	0.01855	-0.009456	-0.05308	0.004193	0.1063	0.09394
	(0.900)	(0.946)	(0.691)	(0.979)	(0.538)	(0.591)
	83	88	88	88	88	88
	0.293	0.272	0.280	0.306	0.356	0.358
	0.3435	0.1792	-0.01122	0.1505	0.5924	0.6062
	(0.593)	(0.762)	(0.984)	(0.806)	(0.313)	(0.320)
	96	101	101	101	101	101
	0.266	0.253	0.271	0.284	0.313	0.313
	-0.3122	-0.4107	-0.5634	-0.4306	-0.1328	-0.2429
	(0.753)	(0.672)	(0.532)	(0.687)	(0.899)	(0.819)
	96	101	101	101	101	101
	0.264	0.253	0.274	0.285	0.306	0.309
	-0.4288	-0.6227	-0.8424	-0.7001	-0.4624	-0.6359
	(0.606)	(0.421)	(0.273)	(0.449)	(0.636)	(0.530)
	95	100	100	100	100	100
	0.252	0.248	0.272	0.282	0.301	0.308
	0.4545	0.3216	0.1891	0.3840	1.1343	0.6692
	(0.609)	(0.701)	(0.794)	(0.665)	(0.311)	(0.616)
	97	102	102	102	102	102
	0.257	0.248	0.265	0.284	0.309	0.316

(Table continues on the following page.)

**TABLE B.10 Summary of Regression Results—Dependent Variable: Incremental World Bank Lending
Additional Specifications (5)–(10)—continued**

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by World Bank (US\$ millions)						
		Additional specifications						
		Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	
% Change in foreign exchange rate (trough to peak)	Coeff.	552.16*	604.49*	656.70**	756.80*	652.16*	–1038.8	
	p value	(0.087)	(0.070)	(0.047)	(0.090)	(0.100)	(0.467)	
	N	102	107	107	107	107	107	
	R2	0.472	0.465	0.469	0.470	0.488	0.493	
Change in foreign exchange rate growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	704.38	675.00	566.99	719.70	652.63	1159.0	
	p value	(0.165)	(0.194)	(0.243)	(0.232)	(0.201)	(0.214)	
	N	102	107	107	107	107	107	
	R2	0.465	0.454	0.449	0.455	0.477	0.479	
Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	–65.710	–10.126	–41.459	–10.771	–75.288	–75.834	
	p value	(0.533)	(0.916)	(0.694)	(0.916)	(0.456)	(0.477)	
	N	94	99	99	99	99	99	
	R2	0.453	0.445	0.441	0.447	0.471	0.471	
% Change in foreign reserves (peak to trough)	Coeff.	–42.771	–9.1869	62.751	–73.462	–18.494	–272.35	
	p value	(0.854)	(0.968)	(0.774)	(0.786)	(0.943)	(0.273)	
	N	95	100	100	100	100	100	
	R2	0.453	0.446	0.442	0.448	0.470	0.503	
Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff.	–60.717	–32.981	–38.724	–60.170	–28.950	–12.445	
	p value	(0.594)	(0.748)	(0.710)	(0.539)	(0.770)	(0.913)	
	N	97	102	102	102	102	102	
	R2	0.453	0.443	0.442	0.445	0.469	0.469	
% Change in exports—ATT (2005–07 vs. 2009)	Coeff.	–123.26	–87.037	–57.684	–148.48	–91.110	–104.26	
	p value	(0.317)	(0.455)	(0.525)	(0.185)	(0.327)	(0.457)	
	N	96	101	101	101	101	101	
	R2	0.457	0.445	0.442	0.452	0.472	0.472	
Change in private consumption growth rate (2005–07 vs. 2009)	Coeff.	–287.11	–276.25	–28.283	–336.76	–430.66	–463.25	
	p value	(0.413)	(0.462)	(0.925)	(0.354)	(0.191)	(0.176)	
	N	103	108	108	108	108	108	
	R2	0.459	0.449	0.446	0.452	0.474	0.475	

Note: * p<10% significance level; **5% significance level; ***1% significance level. Model specifications are in the methodology appendix. Each coefficient represents the coefficient on the crisis indicator in a single regression. Full regression tables are available upon request. ATT = annual totals table; GDP = gross domestic product.

Dependent variable: Incremental lending by World Bank as % of GDP						
Additional specifications						
	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
	0.5814	0.7370	0.7311	0.2572	0.6379	-0.2935
	(0.270)	(0.150)	(0.119)	(0.699)	(0.299)	(0.895)
	102	107	107	107	107	107
	0.231	0.230	0.253	0.259	0.277	0.278
	0.2226	0.3385	0.5251	-0.4100	-0.3202	0.6702
	(0.780)	(0.677)	(0.523)	(0.664)	(0.748)	(0.730)
	102	107	107	107	107	107
	0.224	0.217	0.242	0.255	0.262	0.265
	0.09401	0.08281	0.1157	0.1637	0.09074	-0.04727
	(0.785)	(0.804)	(0.698)	(0.647)	(0.815)	(0.917)
	94	99	99	99	99	99
	0.251	0.247	0.262	0.280	0.307	0.315
	-0.2937	-0.3538	-0.4008	-0.2085	-0.1299	-0.3716
	(0.558)	(0.489)	(0.431)	(0.747)	(0.832)	(0.556)
	95	100	100	100	100	100
	0.257	0.255	0.270	0.283	0.305	0.319
	0.3917	0.3343	0.2687	0.2650	0.3902	0.6294
	(0.332)	(0.351)	(0.424)	(0.530)	(0.381)	(0.156)
	97	102	102	102	102	102
	0.222	0.200	0.211	0.232	0.243	0.259
	0.2448	0.06845	0.03418	0.07552	0.1242	0.1758
	(0.352)	(0.775)	(0.888)	(0.743)	(0.633)	(0.594)
	96	101	101	101	101	101
	0.224	0.196	0.208	0.233	0.240	0.241
	0.2642	0.1603	0.06645	0.3431	0.2396	0.03947
	(0.669)	(0.809)	(0.907)	(0.596)	(0.734)	(0.953)
	103	108	108	108	108	108
	0.195	0.178	0.194	0.209	0.222	0.234

TABLE B.11 Summary of Regression Results—Dependent Variable: Incremental Other Major Donor Lending (excl. IMF, EIB, and EU) Core Specifications (1)–(4)

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) (US\$ millions)				Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) as % of GDP			
		Core specifications				Core specifications			
		Model 1	Model 2	Model 3	Model 4	Model 1	Model 2	Model 3	Model 4
Change in GDP growth rate (forecast vs. actual for 2009)	Coeff.	-9.3564**	-9.5377**	-11.573**	-9.0331**	-0.04252	-0.03522	-0.03478	-0.03957
	p value	(0.018)	(0.021)	(0.011)	(0.038)	(0.136)	(0.220)	(0.212)	(0.189)
	N	109	107	107	106	109	107	107	106
	R2	0.433	0.434	0.462	0.434	0.232	0.257	0.257	0.253
Composite score—rank averages	Coeff.	-2.3589**	-2.3216**		-2.2452**	-0.01440**	-0.01374**		-0.01685**
	p value	(0.011)	(0.014)		(0.031)	(0.015)	(0.022)		(0.016)
	N	108	106		104	108	106		104
	R2	0.440	0.440		0.440	0.271	0.299		0.307
Composite score—principal factor	Coeff.	-81.595***	-82.662**		-80.381**	-0.6812***	-0.6661***		-0.6979***
	p value	(0.010)	(0.013)		(0.022)	(0.003)	(0.004)		(0.004)
	N	89	88		87	89	88		87
	R2	0.426	0.426		0.426	0.379	0.380		0.378
Change in private credit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	-283.10*	-274.55	-301.70*	-272.60	-2.3627***	-2.1928**	-1.7236*	-2.3099**
	p value	(0.069)	(0.109)	(0.093)	(0.120)	(0.009)	(0.026)	(0.053)	(0.023)
	N	104	101	100	99	104	101	100	99
	R2	0.436	0.434	0.438	0.436	0.307	0.305	0.311	0.305
% Change in private credit (peak to trough)	Coeff.	-278.96	-262.62	-277.79	-276.05	-1.8440*	-1.2574	-1.3466	-1.3000
	p value	(0.199)	(0.279)	(0.265)	(0.260)	(0.086)	(0.257)	(0.254)	(0.248)
	N	104	101	100	99	104	101	100	99
	R2	0.425	0.423	0.424	0.426	0.254	0.252	0.248	0.246
Change in deposit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	-326.76	-386.88*	-384.92	-374.85*	-2.9345*	-3.7578**	-2.5031	-3.8947**
	p value	(0.121)	(0.076)	(0.104)	(0.091)	(0.060)	(0.014)	(0.106)	(0.013)
	N	103	100	100	99	103	100	100	99
	R2	0.421	0.426	0.426	0.428	0.307	0.354	0.372	0.355
% Change in deposits (peak to trough)	Coeff.	76.895	108.34	111.16	100.09	-1.5966	-2.7268*	-2.8018*	-2.7804
	p value	(0.706)	(0.632)	(0.631)	(0.664)	(0.312)	(0.096)	(0.093)	(0.105)
	N	105	102	99	100	105	102	99	100
	R2	0.411	0.412	0.415	0.415	0.268	0.300	0.301	0.295

TABLE B.11 Summary of Regression Results—Dependent Variable: Incremental Other Major Donor Lending (excl. IMF, EIB, EU) Core Specifications (1)–(4)—continued

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) (US\$ millions)				Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) as % of GDP			
		Core specifications				Core specifications			
		Model 1	Model 2	Model 3	Model 4	Model 1	Model 2	Model 3	Model 4
% Change in foreign exchange rate (trough to peak)	Coeff.	191.63	204.42		202.93	-0.03110	0.2113		0.3420
	p value	(0.153)	(0.130)		(0.149)	(0.965)	(0.759)		(0.659)
	N	109	107		105	109	107		105
	R2	0.426	0.427		0.428	0.208	0.238		0.233
Change in foreign exchange rate growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	422.71*	419.51*	452.69*	431.02*	1.9103	1.8831	1.2548	2.0345
	p value	(0.060)	(0.061)	(0.092)	(0.051)	(0.133)	(0.152)	(0.263)	(0.140)
	N	109	107	107	105	109	107	107	105
	R2	0.431	0.431	0.431	0.433	0.216	0.245	0.253	0.242
Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	-91.854	-110.39*	-136.62	-117.27*	-1.0703**	-1.1668**	-0.8439	-1.1680**
	p value	(0.161)	(0.094)	(0.152)	(0.077)	(0.019)	(0.012)	(0.206)	(0.013)
	N	100	99	99	97	100	99	99	97
	R2	0.426	0.430	0.430	0.432	0.295	0.312	0.314	0.306
% Change in foreign reserves (peak to trough)	Coeff.	-36.962	-12.302	2.2486	-29.577	-1.0623*	-1.0131	-1.3131*	-1.0718
	p value	(0.760)	(0.921)	(0.987)	(0.818)	(0.084)	(0.134)	(0.077)	(0.126)
	N	101	100	100	98	101	100	100	98
	R2	0.422	0.422	0.423	0.423	0.272	0.280	0.299	0.276
Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff.	-43.239	-73.838	-123.88	-64.452	-0.7515	-1.1198**	-1.1743*	-1.1302**
	p value	(0.583)	(0.330)	(0.233)	(0.432)	(0.130)	(0.030)	(0.055)	(0.044)
	N	104	102	102	100	104	102	102	100
	R2	0.420	0.421	0.424	0.423	0.237	0.280	0.280	0.273
% Change in exports—ATT (2005–07 vs. 2009)	Coeff.	-110.72*	-112.99*	-100.18	-110.06*	-0.6463*	-0.5595	-0.4744	-0.5621
	p value	(0.087)	(0.076)	(0.115)	(0.085)	(0.067)	(0.127)	(0.206)	(0.126)
	N	103	101	101	99	103	101	101	99
	R2	0.437	0.436	0.440	0.439	0.251	0.275	0.283	0.269
Change in private consumption growth rate (2005–07 vs. 2009)	Coeff.	-474.09***	-506.15***	-657.70***	-489.60**	-0.4689	-0.8487	0.3979	-0.9219
	p value	(0.005)	(0.005)	(0.006)	(0.010)	(0.717)	(0.433)	(0.789)	(0.441)
	N	111	108	108	107	111	108	108	107
	R2	0.441	0.440	0.445	0.441	0.236	0.242	0.260	0.238

Note: * p<10% significance level; **5% significance level; ***1% significance level. Model specifications are in the methodology appendix. Each coefficient represents the coefficient on the crisis indicator in a single regression. ATT = annual totals table; EIB = European Investment Bank; EU = European Union; GDP = gross domestic product; IMF = International Monetary Fund.

TABLE B.12 Summary of Regression Results—Dependent Variable: Incremental Other Major Donor Lending (excl. IMF, EIB, EU)—Additional Specifications (5)-(10)

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) (US\$ millions)						
		Additional specifications						
		Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	
Change in GDP growth rate (forecast vs. actual for 2009)	Coeff.	-9.2228**	-9.4093**	-7.9056*	-9.0270	-9.3382*	-11.970*	
	p value	(0.040)	(0.025)	(0.055)	(0.116)	(0.090)	(0.079)	
	N	102	107	107	107	107	107	
	R2	0.429	0.435	0.438	0.439	0.463	0.465	
Composite score—rank averages	Coeff.	-2.2838**	-2.3009**	-1.9436*	-2.8326**	-2.4735**	-2.8838**	
	p value	(0.040)	(0.017)	(0.053)	(0.038)	(0.042)	(0.027)	
	N	101	106	106	106	106	106	
	R2	0.434	0.440	0.443	0.449	0.464	0.467	
Composite score—principal factor	Coeff.	-83.514**	-82.399**	-69.383**	-101.28**	-85.561*	-81.372*	
	p value	(0.020)	(0.016)	(0.043)	(0.030)	(0.060)	(0.072)	
	N	83	88	88	88	88	88	
	R2	0.420	0.426	0.433	0.441	0.455	0.457	
Change in private credit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	-287.43	-274.11	-238.45	-319.51*	-266.13	-290.68	
	p value	(0.129)	(0.115)	(0.171)	(0.100)	(0.172)	(0.133)	
	N	96	101	101	101	101	101	
	R2	0.432	0.434	0.441	0.445	0.460	0.470	
% Change in private credit (peak to trough)	Coeff.	-251.75	-258.67	-235.89	-283.85	-217.33	-179.19	
	p value	(0.315)	(0.282)	(0.324)	(0.314)	(0.424)	(0.549)	
	N	96	101	101	101	101	101	
	R2	0.420	0.424	0.433	0.433	0.452	0.457	
Change in deposit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	-368.75	-379.77*	-320.96	-455.54**	-337.53	-365.28*	
	p value	(0.117)	(0.079)	(0.165)	(0.047)	(0.133)	(0.095)	
	N	95	100	100	100	100	100	
	R2	0.421	0.426	0.435	0.441	0.455	0.456	
% Change in deposits (peak to trough)	Coeff.	133.30	143.40	108.63	142.35	317.72	257.68	
	p value	(0.572)	(0.539)	(0.611)	(0.553)	(0.265)	(0.423)	
	N	97	102	102	102	102	102	
	R2	0.410	0.413	0.427	0.425	0.449	0.450	

Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) as % of GDP						
Additional specifications						
	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
	−0.04192	−0.02900	−0.04996	−0.01897	−0.02036	−0.04375
	(0.180)	(0.305)	(0.162)	(0.582)	(0.505)	(0.163)
	102	107	107	107	107	107
	0.271	0.278	0.137	0.344	0.519	0.526
	−0.01464**	−0.01253**	−0.01788**	−0.01440**	−0.003845	−0.005125
	(0.035)	(0.047)	(0.043)	(0.043)	(0.588)	(0.521)
	101	106	106	106	106	106
	0.312	0.301	0.180	0.370	0.491	0.493
	−0.6498***	−0.6152***	−0.7915***	−0.6884***	−0.3149	−0.3707*
	(0.009)	(0.010)	(0.007)	(0.008)	(0.116)	(0.099)
	83	88	88	88	88	88
	0.409	0.389	0.262	0.466	0.539	0.562
	−1.8099*	−2.0140*	−2.4050**	−2.0081**	−0.7168	−0.7654
	(0.062)	(0.052)	(0.046)	(0.031)	(0.371)	(0.371)
	96	101	101	101	101	101
	0.300	0.310	0.182	0.384	0.467	0.470
	−0.7074	−0.8725	−1.7790	−0.9277	0.2214	0.4765
	(0.513)	(0.438)	(0.182)	(0.392)	(0.841)	(0.680)
	96	101	101	101	101	101
	0.258	0.266	0.131	0.348	0.463	0.473
	−3.4367**	−3.5837**	−4.1625**	−3.7768**	−2.4132**	−2.6962**
	(0.036)	(0.024)	(0.023)	(0.015)	(0.048)	(0.035)
	95	100	100	100	100	100
	0.360	0.357	0.226	0.430	0.507	0.517
	−1.8853	−2.4230	−3.4814*	−1.8780	0.001778	0.02643
	(0.217)	(0.134)	(0.064)	(0.190)	(0.999)	(0.984)
	97	102	102	102	102	102
	0.299	0.307	0.186	0.375	0.470	0.470

(Table continues on the following page.)

TABLE B.12 Summary of Regression Results—Dependent Variable: Incremental Other Major Donor Lending (excl. IMF, EIB, EU)—Additional Specifications (5)–(10)—continued

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) (US\$ millions)						
		Additional specifications						
		Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	
% Change in foreign exchange rate (trough to peak)	Coeff.	190.55	229.04*	192.42	242.72	270.44	−495.57	
	p value	(0.186)	(0.087)	(0.155)	(0.215)	(0.129)	(0.554)	
	N	102	107	107	107	107	107	
	R2	0.423	0.430	0.437	0.437	0.460	0.464	
Change in foreign exchange rate growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	415.87*	440.27**	369.47	433.62*	493.36*	639.01	
	p value	(0.067)	(0.047)	(0.103)	(0.097)	(0.067)	(0.174)	
	N	102	107	107	107	107	107	
	R2	0.428	0.433	0.438	0.439	0.461	0.461	
Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	−119.27*	−108.12*	−101.00	−101.42	−86.154	−84.359	
	p value	(0.091)	(0.097)	(0.140)	(0.109)	(0.194)	(0.268)	
	N	94	99	99	99	99	99	
	R2	0.427	0.430	0.439	0.438	0.458	0.458	
% Change in foreign reserves (peak to trough)	Coeff.	−14.346	−14.907	−24.811	−25.442	−24.131	−163.57	
	p value	(0.912)	(0.906)	(0.842)	(0.861)	(0.867)	(0.251)	
	N	95	100	100	100	100	100	
	R2	0.419	0.423	0.433	0.432	0.455	0.495	
Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff.	−59.218	−68.826	−28.800	−67.892	−27.104	−13.332	
	p value	(0.506)	(0.376)	(0.714)	(0.353)	(0.701)	(0.878)	
	N	97	102	102	102	102	102	
	R2	0.418	0.421	0.431	0.429	0.450	0.451	
% Change in exports—ATT (2005–07 vs. 2009)	Coeff.	−121.48	−111.58*	−103.33*	−124.22*	−97.369	−87.581	
	p value	(0.115)	(0.094)	(0.099)	(0.067)	(0.181)	(0.260)	
	N	96	101	101	101	101	101	
	R2	0.433	0.436	0.444	0.446	0.461	0.461	
Change in private consumption growth rate (2005–07 vs. 2009)	Coeff.	−504.29***	−497.36***	−433.32**	−466.65**	−503.02**	−534.48**	
	p value	(0.009)	(0.006)	(0.017)	(0.015)	(0.014)	(0.011)	
	N	103	108	108	108	108	108	
	R2	0.437	0.441	0.445	0.446	0.472	0.473	

Note: * p<10% significance level; **5% significance level; ***1% significance level. Model specifications are in the methodology appendix. Each coefficient represents the coefficient on the crisis indicator in a single regression. ATT = annual totals table; EIB = European Investment Bank; EU = European Union; GDP = gross domestic product; IMF = International Monetary Fund.

Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) as % of GDP						
Additional specifications						
	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
	-0.06757	0.2825	-0.6812	0.2565	0.1326	1.3907
	(0.923)	(0.680)	(0.321)	(0.781)	(0.880)	(0.728)
	102	107	107	107	107	107
	0.244	0.258	0.125	0.333	0.491	0.492
	1.7026	1.6318	0.8388	1.6868	0.1698	2.5103
	(0.184)	(0.220)	(0.538)	(0.243)	(0.896)	(0.271)
	102	107	107	107	107	107
	0.250	0.259	0.115	0.339	0.487	0.493
	-1.0958**	-1.1206**	-0.8159*	-1.1026***	-0.9816**	-1.1261**
	(0.017)	(0.011)	(0.092)	(0.007)	(0.014)	(0.012)
	94	99	99	99	99	99
	0.322	0.325	0.141	0.395	0.542	0.546
	-0.7122	-1.0008	-1.1152	-0.7324	0.2009	-0.1027
	(0.267)	(0.138)	(0.151)	(0.327)	(0.782)	(0.893)
	95	100	100	100	100	100
	0.283	0.298	0.138	0.362	0.515	0.526
	-1.0175*	-0.9653*	-0.6201	-1.0686**	-0.5836	-0.4022
	(0.056)	(0.069)	(0.344)	(0.037)	(0.165)	(0.481)
	97	102	102	102	102	102
	0.284	0.289	0.136	0.374	0.526	0.529
	-0.4928	-0.4836	-0.5573	-0.5145	-0.3678	0.1643
	(0.192)	(0.208)	(0.112)	(0.189)	(0.479)	(0.741)
	96	101	101	101	101	101
	0.287	0.285	0.157	0.362	0.517	0.555
	-1.2413	-0.2936	-1.8459	-0.1302	-0.01438	-0.5013
	(0.302)	(0.804)	(0.136)	(0.916)	(0.992)	(0.710)
	103	108	108	108	108	108
	0.256	0.263	0.142	0.338	0.512	0.530

TABLE B.13 Summary of Regression Results—Dependent Variable: Incremental Other Major Donor Lending (excl. IMF, EIB, EU) re-defined as Change in Lending between CY05-07 versus CY08-10—Specifications (1)–(9)

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) as % of GDP Incremental lending defined as CY05–07 vs. CY08–10 for ADB, AfDB, EBRD, and IDB			
		Core Specifications			
		Model 1	Model 2	Model 3	Model 4
Change in GDP growth rate (forecast vs. actual for 2009)	Coeff.	–0.02637	–0.02727	–0.02648	–0.03155
	p value	(0.313)	(0.303)	(0.299)	(0.241)
Composite score—rank averages	Coeff.	–0.01066**	–0.01167**		–0.01468**
	p value	(0.041)	(0.027)		(0.017)
Composite score—principal factor	Coeff.	–0.5150**	–0.5771***		–0.6054***
	p value	(0.015)	(0.005)		(0.006)
Change in private credit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	–1.9733**	–2.0743**	–1.6294**	–2.1914**
	p value	(0.014)	(0.019)	(0.048)	(0.017)
% Change in private credit (peak to trough)	Coeff.	–1.0198	–1.1809	–1.2792	–1.2125
	p value	(0.227)	(0.226)	(0.220)	(0.221)
Change in deposit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	–2.5475*	–3.3979**	–2.1210	–3.5420***
	p value	(0.056)	(0.011)	(0.113)	(0.010)
% Change in deposits (peak to trough)	Coeff.	–1.6005	–2.4806*	–2.5633*	–2.5730*
	p value	(0.238)	(0.092)	(0.085)	(0.098)
% Change in foreign exchange rate (trough to peak)	Coeff.	–0.007183	0.09918		0.2262
	p value	(0.991)	(0.871)		(0.742)
Change in foreign exchange rate growth rate (2005–07 vs. Jul 2008– Dec 2009)	Coeff.	1.5914	1.1879	0.7887	1.3145
	p value	(0.124)	(0.249)	(0.443)	(0.231)
Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	–0.7377*	–0.8081**	–0.6013	–0.8087*
	p value	(0.056)	(0.047)	(0.305)	(0.052)
% Change in foreign reserves (peak to trough)	Coeff.	–0.7665	–0.7685	–0.9523	–0.8077
	p value	(0.141)	(0.182)	(0.131)	(0.171)
Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff.	–0.6599	–0.8979**	–0.9499*	–0.9318*
	p value	(0.137)	(0.050)	(0.051)	(0.058)

Dependent variable:
Incremental lending by other major donors (excl. IMF, EIB, EU) as % of GDP
Incremental lending defined as CY05–07 vs. CY08–10 for ADB, AfDB, EBRD, and IDB

	Additional Specifications				
	Model 5	Model 6	Model 7	Model 8	Model 9
	-0.03822	-0.02150	-0.04297	-0.01677	-0.01132
	(0.182)	(0.413)	(0.188)	(0.563)	(0.692)
	-0.01346**	-0.01041*	-0.01558*	-0.01308**	-0.003387
	(0.022)	(0.062)	(0.052)	(0.024)	(0.555)
	-0.5840***	-0.5258**	-0.7188***	-0.6024***	-0.2582
	(0.009)	(0.015)	(0.007)	(0.007)	(0.126)
	-1.7978**	-1.9210**	-2.3281**	-1.9452**	-0.8719
	(0.033)	(0.040)	(0.037)	(0.018)	(0.209)
	-0.5664	-0.8348	-1.7318	-0.9337	0.08973
	(0.535)	(0.397)	(0.157)	(0.334)	(0.933)
	-3.2252**	-3.2302**	-3.8501**	-3.4219***	-2.2053**
	(0.025)	(0.020)	(0.018)	(0.009)	(0.028)
	-1.6117	-2.1982	-3.2737*	-1.7612	-0.1162
	(0.221)	(0.135)	(0.058)	(0.172)	(0.920)
	-0.07382	0.1617	-0.7831	0.3510	-0.003919
	(0.904)	(0.790)	(0.221)	(0.660)	(0.996)
	1.1934	0.9734	0.2148	1.1968	-0.3609
	(0.216)	(0.349)	(0.845)	(0.306)	(0.756)
	-0.8389**	-0.7621*	-0.4696	-0.7760**	-0.6513**
	(0.035)	(0.050)	(0.284)	(0.024)	(0.043)
	-0.6026	-0.7567	-0.8640	-0.5870	0.3214
	(0.261)	(0.191)	(0.205)	(0.336)	(0.586)
	-0.9390**	-0.7520	-0.4236	-0.8315**	-0.4366
	(0.028)	(0.103)	(0.493)	(0.049)	(0.207)

(Table continues on the following page.)

TABLE B.13 Summary of Regression Results—Dependent Variable: Incremental Other Major Donor Lending (excl. IMF, EIB, EU) re-defined as Change in Lending between CY05-07 versus CY08-10—Specifications (1)-(9) (continued)

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) as % of GDP Incremental lending defined as CY05-07 vs. CY08-10 for ADB, AfDB, EBRD, and IDB			
		Core Specifications			
		Model 1	Model 2	Model 3	Model 4
Change in private consumption growth rate (2005-07 vs. 2009)	Coeff.	-0.7423	-0.8486	0.2646	-0.9331
	p value	(0.395)	(0.358)	(0.826)	(0.345)
Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) (US\$ millions) Incremental lending defined as CY05-07 vs. CY08-10 for ADB, AfDB, EBRD, and IDB			
		Core Specifications			
		Model 1	Model 2	Model 3	Model 4
Change in GDP growth rate (forecast vs. actual for 2009)	Coeff.	-7.2543**	-7.4565**	-8.8769**	-6.6607*
	p value	(0.026)	(0.031)	(0.015)	(0.068)
Composite score—rank averages	Coeff.	-1.9244**	-1.9101**		-1.7951*
	p value	(0.017)	(0.020)		(0.050)
Composite score—principal factor	Coeff.	-66.228**	-67.859**		-64.603**
	p value	(0.019)	(0.022)		(0.040)
Change in private credit growth rate (2005-07 vs. Jul 2008-Dec 2009)	Coeff.	-273.83*	-270.61*	-283.58*	-268.21*
	p value	(0.054)	(0.077)	(0.081)	(0.088)
% Change in private credit (peak to trough)	Coeff.	-225.84	-217.19	-229.19	-230.47
	p value	(0.225)	(0.303)	(0.279)	(0.278)
Change in deposit growth rate (2005-07 vs. Jul 2008-Dec 2009)	Coeff.	-318.36*	-373.49**	-341.42*	-361.24*
	p value	(0.075)	(0.047)	(0.091)	(0.059)
% Change in deposits (peak to trough)	Coeff.	71.699	99.186	90.659	91.266
	p value	(0.710)	(0.645)	(0.679)	(0.677)
% Change in foreign exchange rate (trough to peak)	Coeff.	172.08	181.96		178.59
	p value	(0.179)	(0.160)		(0.192)
Change in foreign exchange rate growth rate (2005-07 vs. Jul 2008-Dec 2009)	Coeff.	416.68*	412.03*	402.00*	422.83*
	p value	(0.063)	(0.065)	(0.091)	(0.056)

Dependent variable:
Incremental lending by other major donors (excl. IMF, EIB, EU) as % of GDP
Incremental lending defined as CY05–07 vs. CY08–10 for ADB, AfDB, EBRD, and IDB

Additional Specifications					
	Model 5	Model 6	Model 7	Model 8	Model 9
	–1.3318	–0.3644	–1.9220*	–0.3760	–0.1172
	(0.153)	(0.713)	(0.056)	(0.710)	(0.919)

Dependent variable:
Incremental lending by other major donors (excl. IMF, EIB, EU) (US\$ millions)
Incremental lending defined as CY05–07 vs. CY08–10 for ADB, AfDB, EBRD, and IDB

	Model 5	Model 6	Model 7	Model 8	Model 9
	–7.0910*	–7.2172**	–6.5211*	–7.7555*	–7.9283*
	(0.057)	(0.038)	(0.060)	(0.075)	(0.073)
	–1.8522*	–1.7944**	–1.7192*	–2.6528***	–2.2600**
	(0.059)	(0.031)	(0.051)	(0.009)	(0.016)
	–68.013**	–64.103**	–60.374**	–92.278**	–77.293**
	(0.035)	(0.033)	(0.048)	(0.010)	(0.029)
	–285.75*	–252.58*	–250.13	–332.55**	–285.01*
	(0.091)	(0.098)	(0.107)	(0.047)	(0.067)
	–206.41	–207.69	–204.90	–230.65	–161.07
	(0.344)	(0.311)	(0.327)	(0.368)	(0.502)
	–359.66*	–353.17*	–338.07*	–501.48**	–402.43**
	(0.078)	(0.054)	(0.090)	(0.012)	(0.029)
	121.06	163.87	89.702	96.328	271.87
	(0.592)	(0.451)	(0.661)	(0.657)	(0.310)
	169.90	218.52*	168.75	250.69	257.39
	(0.229)	(0.073)	(0.196)	(0.153)	(0.110)
	411.56*	444.32**	381.65*	473.17*	494.85*
	(0.071)	(0.041)	(0.088)	(0.067)	(0.061)

(Table continues on the following page.)

TABLE B.13 Summary of Regression Results—Dependent Variable: Incremental Other Major Donor Lending (excl. IMF, EIB, EU) re-defined as Change in Lending between CY05-07 versus CY08-10—Specifications (1)–(9) (continued)

Indicators of crisis intensity	Statistics	Dependent variable: Incremental lending by other major donors (excl. IMF, EIB, EU) (US\$ millions) Incremental lending defined as CY05–07 vs. CY08–10 for ADB, AfDB, EBRD, and IDB				
		Model 1	Model 2	Model 3	Model 4	
Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff.	–64.062	–76.538	–86.177	–83.136	
	p value	(0.218)	(0.148)	(0.242)	(0.112)	
% Change in foreign reserves (peak to trough)	Coeff.	7.3455	26.936	51.971	10.867	
	p value	(0.942)	(0.796)	(0.664)	(0.919)	
Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff.	–44.083	–65.981	–101.62	–56.752	
	p value	(0.495)	(0.276)	(0.234)	(0.388)	
% Change in exports—ATT (2005–07 vs. 2009)	Coeff.	–83.284*	–84.414*	–79.598	–81.301	
	p value	(0.095)	(0.087)	(0.114)	(0.103)	
Change in private consumption growth rate (2005–07 vs. 2009)	Coeff.	–367.45***	–391.09**	–474.51**	–370.39**	
	p value	(0.009)	(0.012)	(0.011)	(0.023)	

Note: * p<10% significance level; **5% significance level; ***1% significance level. Model specifications are in the methodology appendix. Each coefficient represents the coefficient on the crisis indicator in a single regression. ATT = annual totals table; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; EU = European Union; IDB = Inter-American Development Bank; IMF = International Monetary Fund.

Dependent variable:
 Incremental lending by other major donors (excl. IMF, EIB, EU) (US\$ millions)
 Incremental lending defined as CY05–07 vs. CY08–10 for ADB, AfDB, EBRD, and IDB

	Model 5	Model 6	Model 7	Model 8	Model 9
	–84.411	–70.277	–68.029	–74.513	–61.473
	(0.122)	(0.173)	(0.204)	(0.159)	(0.234)
	24.965	21.001	16.514	8.2068	7.7072
	(0.818)	(0.843)	(0.873)	(0.944)	(0.947)
	–54.088	–49.026	–31.867	–64.187	–29.100
	(0.445)	(0.416)	(0.601)	(0.296)	(0.627)
	–88.497	–76.245	–78.613	–90.167	–71.247
	(0.143)	(0.154)	(0.107)	(0.110)	(0.223)
	–385.17**	–372.46**	–348.77**	–376.86**	–397.49**
	(0.017)	(0.017)	(0.022)	(0.019)	(0.025)

TABLE B.14 Summary of Regression Results—Dependent Variable: *Incremental World Bank Lending (US\$ millions)*
 Independent Variable of Interest: *IBRD/Graduate Country Status*Crisis Intensity—*
 Specifications (H1)–(H8)

Interaction term for IBRD/Graduate country status and crisis intensity	Statistics	Dependent variable: Incremental lending by World Bank (US\$ millions)		
		Core specifications		
		Model H1	Model H2	Model H3
IBRD/Graduate Country*Change in GDP growth rate (forecast vs. actual for 2009)	Coeff	–7.3101	–6.2896	–6.8959
	p value	(0.742)	(0.780)	(0.762)
IBRD/Graduate Country*Composite score—rank averages	Coeff	–6.0111	–6.2526	–5.7520
	p value	(0.190)	(0.180)	(0.273)
IBRD/Graduate Country*Composite score—principal factor	Coeff	–152.97	–157.51	–172.98
	p value	(0.409)	(0.410)	(0.387)
IBRD/Graduate Country*Change in private credit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	–1026.8	–1061.5	–1001.4
	p value	(0.148)	(0.138)	(0.193)
IBRD/Graduate Country*% Change in private credit (peak to trough)	Coeff	–2344.8*	–2425.1**	–2421.6**
	p value	(0.054)	(0.046)	(0.044)
IBRD/Graduate Country*Change in deposit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	–609.96	–631.89	–650.66
	p value	(0.393)	(0.391)	(0.383)
IBRD/Graduate Country*% Change in deposits (peak to trough)	Coeff	–637.42	–774.73	–863.25
	p value	(0.341)	(0.274)	(0.255)
IBRD/Graduate Country*% Change in foreign exchange rate (trough to peak)	Coeff	1456.9**	1498.0**	1466.3**
	p value	(0.035)	(0.032)	(0.047)
IBRD/Graduate Country*Change in foreign exchange rate growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	1366.3	1382.6	1518.4
	p value	(0.214)	(0.215)	(0.202)
IBRD/Graduate Country*Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	–13.522	0.9495	–1.4477
	p value	(0.958)	(0.997)	(0.996)
IBRD/Graduate Country*% Change in foreign reserves (peak to trough)	Coeff	–778.36**	–848.72**	–822.16**
	p value	(0.042)	(0.030)	(0.042)
IBRD/Graduate Country*Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff	–121.44	–132.72	–222.34
	p value	(0.825)	(0.811)	(0.716)
IBRD/Graduate Country*% Change in exports—ATT (2005–07 vs. 2009)	Coeff	–352.46	–368.23	–240.10
	p value	(0.348)	(0.327)	(0.506)
IBRD/Graduate Country*Change in private consumption growth rate (2005–07 vs. 2009)	Coeff	266.30	348.62	208.02
	p value	(0.701)	(0.618)	(0.788)

Note: All specifications (H1)–(H8) include the measure for crisis intensity, an indicator variable equal to 1 if country status is IBRD/Graduate, and 0 otherwise and the interaction of IBRD/Graduate status and crisis intensity. (H1) also includes controls for relative size of economy in 2005–07, log of population, pre crisis lending. (H2) is same as (H1) and also includes pre-crisis fiscal deficit. (H3) is same as (H2) and also includes CPIA. (H4) is same as (H2) and also includes pre-crisis country risk rating. (H5) is same as (H2) and also includes share of Bank in pre-crisis in total major donor lending. (H6) is same as (H2)

**Dependent variable:
Incremental lending by World Bank (US\$ millions)**

	Additional specifications				
	Model H4	Model H5	Model H6	Model H7	Model H8
	-0.4416	-4.0791	-15.096	-6.7415	-9.9419
	(0.985)	(0.865)	(0.539)	(0.817)	(0.717)
	-6.0597	-5.8181	-6.6616	-7.2903	-6.9516
	(0.198)	(0.232)	(0.161)	(0.165)	(0.175)
	-172.72	-150.60	-156.31	-167.61	-168.77
	(0.383)	(0.440)	(0.430)	(0.443)	(0.469)
	-1066.0	-1055.7	-1111.9	-1134.8	-1480.7**
	(0.140)	(0.140)	(0.142)	(0.182)	(0.037)
	-2531.7**	-2476.2**	-2361.5*	-2562.2**	-2636.6*
	(0.022)	(0.039)	(0.079)	(0.031)	(0.051)
	-608.45	-603.33	-759.31	-667.41	-952.73
	(0.420)	(0.414)	(0.315)	(0.423)	(0.262)
	-1100.2	-724.66	-399.26	-702.22	-915.29
	(0.128)	(0.312)	(0.597)	(0.434)	(0.191)
	1406.5**	1442.4**	1299.6**	1682.4**	1654.1**
	(0.041)	(0.048)	(0.049)	(0.031)	(0.037)
	1740.5	1217.8	1147.3	1423.7	1555.0
	(0.130)	(0.305)	(0.294)	(0.205)	(0.154)
	81.245	20.228	-99.137	27.736	-129.06
	(0.763)	(0.938)	(0.722)	(0.924)	(0.672)
	-953.33**	-791.63*	-598.10	-866.72**	-920.85**
	(0.015)	(0.053)	(0.147)	(0.028)	(0.014)
	34.109	-176.12	-306.57	-134.80	-175.06
	(0.953)	(0.752)	(0.574)	(0.807)	(0.745)
	-231.34	-375.00	-234.84	-279.97	-276.44
	(0.520)	(0.316)	(0.496)	(0.437)	(0.530)
	163.13	348.58	365.72	374.73	186.14
	(0.830)	(0.623)	(0.605)	(0.620)	(0.791)

except that log of population is replaced with log of GDP per capita. (H7) is same as (H2) and also includes regional fixed effects. (H8) is same as (H2) and also includes donor fixed effects. * p<10% significance level; **5% significance level; ***1% significance level. Each coefficient represents the coefficient on the crisis indicator in a single regression. Using incremental lending as % of GDP as the dependent variable, only the interaction of foreign exchange rate with country's IBRD/graduate status is statistically significant. IBRD = International Bank for Reconstruction and Development.

TABLE B.15 Summary of Regression Results—Dependent Variable: *Incremental Lending by World Bank and Other Major Donors excl. IMF, EIB, EU as % of GDP*. Independent Variable of Interest: *World Bank* Crisis Intensity—Specifications (S1)-(S4)*

		Dependent variable: Incremental lending by World Bank and other major donors excl. IMF, EIB, EU as % of GDP (For MDBs, incremental lending is defined as CY05–CY07 vs. CY09–10)			
Interaction term for World Bank and crisis intensity	Statistics	Model S1	Model S2	Model S3	Model S4
World Bank*Change in GDP growth rate (forecast vs. actual for 2009)	Coeff	0.07309*	0.07366*	0.07429*	0.07614**
	p-value	(0.053)	(0.055)	(0.054)	(0.044)
World Bank*Composite score—rank averages	Coeff	0.01735**	0.01747**		0.01790**
	p-value	(0.017)	(0.018)		(0.013)
World Bank*Composite score—principal factor	Coeff	0.8010***	0.8186***		0.8207***
	p-value	(0.004)	(0.004)		(0.003)
World Bank*Change in private credit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	2.8811**	2.3857**	2.1732*	2.4358**
	p-value	(0.016)	(0.042)	(0.068)	(0.033)
World Bank*% Change in private credit (peak to trough)	Coeff	1.1145	–0.1444	–0.09453	–0.07543
	p-value	(0.486)	(0.921)	(0.949)	(0.959)
World Bank*Change in deposit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	2.8315	3.5706**	3.6357**	3.6219**
	p-value	(0.118)	(0.046)	(0.041)	(0.042)
World Bank*% Change in deposits (peak to trough)	Coeff	2.5208	3.8419**	4.1239**	3.9309**
	p-value	(0.177)	(0.043)	(0.032)	(0.031)
World Bank*% Change in foreign exchange rate (trough to peak)	Coeff	1.4293*	1.4360*		1.4555*
	p-value	(0.091)	(0.086)		(0.080)
World Bank*Change in foreign exchange rate growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	–0.4766	–0.5028	–0.5041	–0.5176
	p-value	(0.732)	(0.723)	(0.725)	(0.709)
World Bank*Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	1.2200*	1.1982*	1.2080*	1.2149**
	p-value	(0.050)	(0.053)	(0.059)	(0.042)
World Bank*% Change in foreign reserves (peak to trough)	Coeff	0.6895	0.7058	0.7088	0.6717
	p-value	(0.376)	(0.363)	(0.361)	(0.349)
World Bank*Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff	0.7283	0.6992	0.6988	0.7812
	p-value	(0.199)	(0.211)	(0.211)	(0.144)
World Bank*% Change in exports—ATT (2005–07 vs. 2009)	Coeff	0.1745	0.1753	0.1694	0.2355
	p-value	(0.729)	(0.734)	(0.743)	(0.656)
World Bank*Change in private consumption growth rate (2005–07 vs. 2009)	Coeff	0.4038	2.1682*	2.1860*	2.2460**
	p-value	(0.803)	(0.056)	(0.067)	(0.047)

Note: All specifications (S1)-(S4) include the measure for crisis intensity (mean-centered), a dummy variable World Bank which takes the value of 1 if the dependent variable is measured as incremental World Bank lending, and 0 if the dependent variable is measured as incremental Other Major Donor Lending excluding IMF, EIB, EU, and the interaction term for the World Bank dummy and crisis intensity measure. (S1) also includes controls for relative size of economy in 2005–07, log of population, IBRD eligibility, pre-crisis lending (mean-centered), and pre-crisis lending squared. (S2) is same as (S1) and also includes pre-crisis fiscal deficit. (S3) is same as (S2) and also includes the baseline value of the crisis indicator. (S4) is same as (S2) and also includes

**Dependent variable:
Incremental lending by World Bank and other major donors excl. IMF, EIB, EU as % of GDP
(For MDBs, incremental lending is defined as CY05–CY07 vs. CY08–10)**

	Model S1	Model S2	Model S3	Model S4
	0.05831*	0.06640*	0.06722*	0.06834*
	(0.098)	(0.064)	(0.062)	(0.053)
	0.01369**	0.01577**		0.01606**
	(0.038)	(0.017)		(0.014)
	0.6499**	0.7381***		0.7385***
	(0.012)	(0.004)		(0.004)
	2.5106**	2.2700**	2.0609*	2.3061**
	(0.022)	(0.037)	(0.063)	(0.030)
	0.4284	−0.1338	−0.07676	−0.07749
	(0.764)	(0.921)	(0.956)	(0.954)
	2.4635	3.2999**	3.3657**	3.3324**
	(0.126)	(0.041)	(0.035)	(0.040)
	2.4670	3.5238**	3.8307**	3.5934**
	(0.140)	(0.042)	(0.028)	(0.031)
	1.4355*	1.5229*		1.5366*
	(0.074)	(0.055)		(0.054)
	−0.1877	0.02647	0.02329	0.01568
	(0.879)	(0.983)	(0.985)	(0.990)
	0.8754	0.8961	0.9047	0.9088
	(0.130)	(0.121)	(0.130)	(0.105)
	0.3841	0.4250	0.4271	0.3953
	(0.582)	(0.543)	(0.542)	(0.543)
	0.6670	0.5837	0.5833	0.6508
	(0.209)	(0.263)	(0.263)	(0.191)
	0.1357	0.1196	0.1177	0.1682
	(0.770)	(0.799)	(0.802)	(0.727)
	0.7114	2.2563**	2.2726**	2.3148**
	(0.572)	(0.025)	(0.031)	(0.021)

regional fixed effects. * p<10% significance level; **5% significance level; ***1% significance level. Using incremental lending in absolute terms as the dependent variable, the interactions of World Bank with crisis measures are not statistically significant. ATT = annual totals table; EIB = European Investment Bank; EU = European Union; GDP = gross domestic product; IMF = International Monetary Fund; MDB = multilateral development bank.

TABLE B.16 Summary of Regression Results—Dependent Variable: *Incremental Lending by World Bank and Other Major Donors excl. IMF, EIB, EU as % of GDP*. Independent Variable of Interest: *World Bank* Crisis Intensity—Specifications (S5)–(S8)*

		Dependent variable: Incremental lending by World Bank and other major donors excl. IMF, EIB, EU as % of GDP (For MDBs, incremental lending is defined as CY05–CY07 vs. CY09–10)			
Interaction term for World Bank and crisis intensity	Statistics	Model S5	Model S6	Model S7	Model S8
World Bank*Change in GDP growth rate (forecast vs. actual for 2009)	Coeff	0.08148**	0.08176**	0.08196**	0.08517**
	p-value	(0.031)	(0.033)	(0.033)	(0.024)
World Bank*Composite score—rank averages	Coeff	0.01947**	0.02011**		0.02025***
	p-value	(0.013)	(0.012)		(0.010)
World Bank*Composite score—principal factor	Coeff	0.7867***	0.8018***		0.8034***
	p-value	(0.004)	(0.004)		(0.003)
World Bank*Change in private credit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	2.9777***	2.5951**	2.3437**	2.6393**
	p-value	(0.009)	(0.025)	(0.049)	(0.020)
World Bank**% Change in private credit (peak to trough)	Coeff	2.3784	1.4065	1.4007	1.3961
	p-value	(0.128)	(0.332)	(0.344)	(0.330)
World Bank*Change in deposit growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	3.0639*	3.7287**	3.7787**	3.7371**
	p-value	(0.081)	(0.032)	(0.030)	(0.032)
World Bank**% Change in deposits (peak to trough)	Coeff	2.3400	3.7296**	3.9775**	3.8105**
	p-value	(0.192)	(0.038)	(0.029)	(0.029)
World Bank**% Change in foreign exchange rate (trough to peak)	Coeff	1.3815*	1.3703*		1.4010*
	p-value	(0.097)	(0.098)		(0.090)
World Bank*Change in foreign exchange rate growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	–0.8293	–0.8488	–0.8487	–0.7727
	p-value	(0.597)	(0.598)	(0.596)	(0.624)
World Bank*Change in foreign reserves growth rate (2005–07 vs. Jul 2008–Dec 2009)	Coeff	0.8745	0.8624	0.8775	0.8428*
	p-value	(0.112)	(0.112)	(0.117)	(0.100)
World Bank**% Change in foreign reserves (peak to trough)	Coeff	0.5106	0.5191	0.5138	0.5099
	p-value	(0.518)	(0.511)	(0.514)	(0.490)
World Bank*Change in export growth rate—ATT (2005–07 vs. 2009)	Coeff	1.0566	1.0801*	1.0806*	1.1141*
	p-value	(0.101)	(0.099)	(0.098)	(0.076)
World Bank**% Change in exports—ATT (2005–07 vs. 2009)	Coeff	0.7695*	0.7693*	0.7627*	0.8029*
	p-value	(0.074)	(0.076)	(0.077)	(0.061)
World Bank*Change in private consumption growth rate (2005–07 vs. 2009)	Coeff	0.9897	2.4600**	2.4571*	2.4481**
	p-value	(0.531)	(0.049)	(0.064)	(0.048)

Note: All specifications (S5)–(S8) include the measure for crisis intensity (mean-centered), a dummy variable World Bank which is a dummy for IBRD eligibility, pre-crisis lending (mean-centered), and pre-crisis lending squared, the interaction term for the World Bank dummy and crisis intensity measure, the interaction term for the World Bank dummy and IBRD eligibility dummy, the interaction term for the World Bank dummy and pre-crisis volume of lending, and the interaction term for the World Bank dummy and pre-crisis volume of lending squared. (S5) also includes controls for relative size of economy in 2005–07, log of population. (S6) is same as (S1) and also includes pre-crisis fiscal deficit. (S7) is same as (S6) and also includes the baseline value of the crisis indicator.

Dependent variable:
Incremental lending by World Bank and other major donors excl. IMF, EIB, EU as % of GDP
(For MDBs, incremental lending is defined as CY05–CY07 vs. CY08–10)

	Model S5	Model S6	Model S7	Model S8
	0.06730*	0.07520**	0.07544**	0.07825**
	(0.058)	(0.038)	(0.038)	(0.028)
	0.01588**	0.01812**		0.01821**
	(0.028)	(0.013)		(0.010)
	0.6489**	0.7310***		0.7327***
	(0.011)	(0.004)		(0.004)
	2.6042**	2.5111**	2.2407**	2.5501**
	(0.015)	(0.021)	(0.043)	(0.016)
	1.5770	1.3362	1.3266	1.3276
	(0.262)	(0.325)	(0.337)	(0.316)
	2.6947*	3.4466**	3.4953**	3.4489**
	(0.090)	(0.029)	(0.027)	(0.029)
	2.3070	3.4800**	3.7506**	3.5553**
	(0.157)	(0.035)	(0.024)	(0.026)
	1.3922*	1.4739*		1.4986*
	(0.078)	(0.059)		(0.057)
	–0.5883	–0.2477	–0.2477	–0.1773
	(0.667)	(0.858)	(0.859)	(0.897)
	0.5398	0.5488	0.5611	0.5224
	(0.281)	(0.273)	(0.277)	(0.271)
	0.1771	0.2472	0.2432	0.2337
	(0.803)	(0.727)	(0.731)	(0.725)
	0.9924*	0.9225	0.9230	0.9524*
	(0.100)	(0.128)	(0.126)	(0.098)
	0.6770*	0.6753*	0.6718*	0.7083*
	(0.081)	(0.080)	(0.082)	(0.063)
	1.2884	2.5039**	2.5012**	2.4876**
	(0.291)	(0.017)	(0.025)	(0.017)

(S8) is same as (S6) and also includes regional fixed effects. * p<10% significance level; **5% significance level; ***1% significance level. Using incremental lending in absolute terms as the dependent variable, the interactions of World Bank with crisis intensity indicators are not statistically significant. ATT = annual totals table; EIB = European Investment Bank; EU = European Union; GDP = gross domestic product; IMF = International Monetary Fund; MDB = multilateral development bank.

TABLE B.17 Full Regression Results—Dependent Variable: *Incremental World Bank Lending*
Crisis Indicator: *Change in GDP Growth Rate (Forecast versus Actual)*

	Dependent variable: Incremental lending by World Bank (US\$ millions)									
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Decline in GDP growth rate (forecast vs. actual for 2009)	-2.3393 (0.798)	-3.1035 (0.742)	-7.3749 (0.511)	-0.7151 (0.936)	-1.6542 (0.861)	-2.6651 (0.784)	4.9542 (0.522)	-4.0587 (0.757)	-8.0734 (0.449)	-14.068 (0.381)
Relative size of economy	3506.5 (0.690)	3500.4 (0.692)	3191.4 (0.692)	3348.4 (0.704)	2313.5 (0.792)	2914.0 (0.746)	3201.4 (0.706)	3359.6 (0.707)	3201.3 (0.715)	3191.7 (0.715)
IBRD-eligible country	193.17** (0.014)	201.73** (0.013)	136.89* (0.085)	152.24* (0.075)	121.16 (0.109)	147.10** (0.030)	-18.130 (0.883)	196.70 (0.135)	206.33* (0.083)	208.89* (0.086)
Log of population	52.692* (0.056)	59.837* (0.053)	84.290** (0.024)	55.539* (0.062)	73.160** (0.046)	69.816** (0.039)		62.261* (0.065)	47.736 (0.119)	51.232 (0.130)
Pre-crisis World Bank lending volume (US\$ millions) (mean centered)	0.6854** (0.032)	0.6600** (0.043)	0.6738** (0.038)	0.6690** (0.038)	0.6324** (0.048)	0.7378** (0.028)	0.9021*** (0.003)	0.6886** (0.043)	0.7149** (0.034)	0.6937** (0.045)
Fiscal deficit at onset of crisis (2007-08)		-3.7342 (0.527)	2.8492 (0.689)	-2.7048 (0.663)	-2.7058 (0.649)	-3.6657 (0.526)	-0.6260 (0.920)	-5.8181 (0.333)	-6.5236 (0.218)	-7.4032 (0.182)
GDP growth rate forecast for 2009 (from March 2008)			-54.594* (0.066)							
CPIA				84.021 (0.310)						
Pre-crisis country risk rating					-5.2097** (0.043)					
Pre-crisis share of World Bank in major donor lending						-385.04 (0.248)				
Log of GDP per capita (2005-07)							117.85 (0.108)			
EAP								-69.799 (0.679)		
ECA								-56.256 (0.761)		
LCR								37.625 (0.838)		

TABLE B.17 Full Regression Results—Dependent Variable: *Incremental World Bank Lending Crisis Indicator: Change in GDP Growth Rate (Forecast versus Actual) (continued)*

	Dependent variable: Incremental lending by World Bank (US\$ millions)									
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
MNA								-60.123		
								(0.703)		
SAR								-159.55		
								(0.496)		
IMF borrower in 2009-10									6.0432	16.604
									(0.962)	(0.902)
ADB borrower in 2009-10									178.43	186.67
									(0.258)	(0.247)
AfDB borrower in 2009-10									240.52	242.80
									(0.169)	(0.159)
EBRD borrower in 2009-10									-4.4220	-2.1660
									(0.983)	(0.992)
EIB borrower in 2009-10									12.965	33.126
									(0.949)	(0.879)
IDB borrower in 2009-10									270.79	257.32
									(0.250)	(0.258)
EU borrower in 2009-10									-653.41*	-613.59
									(0.093)	(0.126)
IFC/MIGA borrower in 2009-10									5.2760	10.997
									(0.934)	(0.867)
squared Decline in GDP growth rate (forecast vs. actual for 2009) (mean centered)										-1.0733
										(0.427)
Constant	-344.03	-423.72	-310.27	-648.54	-150.24	-372.46	-585.95	-424.92	94.923	58.874
	(0.197)	(0.164)	(0.265)	(0.147)	(0.629)	(0.202)	(0.211)	(0.192)	(0.878)	(0.929)
Observations	109	107	107	106	102	107	107	107	107	107
R-squared	0.445	0.445	0.476	0.447	0.456	0.451	0.446	0.450	0.474	0.476

Note: p values in parentheses. *10% significance level; **5% significance level; ***1% significance level. **Regions:** EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; LCR = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; SAR = South Asia Region. ADB = Asian Development Bank; AfDB = African Development Bank; CPIA = Country Policy and Institutional Assessment; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; EU = European Union; GDP = gross domestic product; IBRD = International Bank for Reconstruction and Development; IDB = Inter-American Development Bank; IFC = International Finance Corporation; IMF = International Monetary Fund; MIGA = Multilateral Investment Guarantee Agency.

TABLE B.18 Full Regression Results—Dependent Variable: *Incremental World Bank Lending as % of GDP*.
Crisis Indicator: *Change in GDP Growth Rate (Forecast versus Actual)*

	Dependent variable: Incremental lending by World Bank as % of GDP									
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Decline in GDP growth rate (forecast vs. actual for 2009)	0.01622	0.01825	0.02083	0.02283	0.02342	0.01900	0.006558	0.02471	0.01246	0.03000
	(0.481)	(0.439)	(0.379)	(0.353)	(0.356)	(0.425)	(0.785)	(0.397)	(0.688)	(0.477)
Relative size of economy	-4.4351**	-4.3286*	-4.3843**	-4.6092*	-5.0442**	-3.9999*	-4.9263***	-5.1562**	-3.8168	-3.4516
	(0.025)	(0.051)	(0.040)	(0.051)	(0.037)	(0.074)	(0.002)	(0.025)	(0.139)	(0.158)
IBRD-eligible country	-0.06025	-0.09236	-0.08312	-0.2084	-0.2184	-0.09981	0.1865	0.02045	-0.04270	-0.04755
	(0.724)	(0.586)	(0.637)	(0.381)	(0.335)	(0.550)	(0.414)	(0.922)	(0.846)	(0.828)
Log of population	0.004874	-0.006800	-0.02031	-0.01721	-0.02602	0.01754		0.0007553	-0.03246	-0.03689
	(0.913)	(0.890)	(0.718)	(0.736)	(0.673)	(0.719)		(0.989)	(0.591)	(0.531)
Pre-crisis World Bank lending volume as % of GDP (mean centered)	-0.1316	-0.1618	-0.1974	-0.2030	-0.1379	-0.07564	-0.2989	-0.2111	-0.2291	-0.2312
	(0.487)	(0.403)	(0.335)	(0.337)	(0.514)	(0.747)	(0.127)	(0.286)	(0.260)	(0.254)
squared Pre-crisis World Bank lending volume as % of GDP (mean centered)	0.1334***	0.1414***	0.1480***	0.1508***	0.1375***	0.1259***	0.1536***	0.1449***	0.1512***	0.1514***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Fiscal deficit at onset of crisis (2007-08)		-0.03618*	-0.04096*	-0.03693*	-0.03321	-0.03533*	-0.03906**	-0.04961**	-0.05233**	-0.05037**
		(0.070)	(0.082)	(0.071)	(0.110)	(0.083)	(0.040)	(0.021)	(0.039)	(0.048)
GDP growth rate forecast for 2009 (from March 2008)			0.03245							
			(0.454)							
CPIA				0.1637						
				(0.421)						
Pre-crisis country risk rating					-0.007171					
					(0.205)					
Pre-crisis share of World Bank in major donor lending as % of GDP						-0.6324				
						(0.341)				
Log of GDP per capita (2005-07)							-0.2495**			
							(0.044)			
EAP								-0.08557		
								(0.754)		
ECA									-0.1479	
									(0.638)	

TABLE B.18 Full Regression Results—Dependent Variable: Incremental World Bank Lending as % of GDP. Crisis Indicator: Change in GDP Growth Rate (Forecast versus Actual) (continued)

	Dependent variable: Incremental lending by World Bank as % of GDP									
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
LCR								-0.3336		
								(0.186)		
MNA								-0.6004**		
								(0.040)		
SAR								-0.4854		
								(0.269)		
IMF borrower in 2009-10									-0.1280	-0.1581
									(0.605)	(0.520)
ADB borrower in 2009-10									0.4981	0.4791
									(0.115)	(0.142)
AfDB borrower in 2009-10									0.7023*	0.6956*
									(0.051)	(0.061)
EBRD borrower in 2009-10									0.3422	0.3294
									(0.299)	(0.320)
EIB borrower in 2009-10									-0.02235	-0.07099
									(0.921)	(0.761)
IDB borrower in 2009-10									0.4116	0.4498
									(0.185)	(0.153)
EU borrower in 2009-10									-0.02157	-0.1239
									(0.921)	(0.544)
IFC/MIGA borrower in 2009-10									0.2435	0.2267
									(0.380)	(0.419)
squared decline in GDP growth rate (Forecast vs Actual for 2009) mean centered										0.003121
										(0.230)
Constant	0.5432	0.6391	0.5681	0.2167	1.4075	0.6261	2.1840***	0.7005	0.1139	0.1950
	(0.206)	(0.195)	(0.255)	(0.767)	(0.113)	(0.196)	(0.007)	(0.196)	(0.857)	(0.755)
Observations	109	107	107	106	102	107	107	107	107	107
R-squared	0.211	0.237	0.241	0.243	0.245	0.242	0.258	0.261	0.272	0.281

Note: p values in parentheses. *10% significance level; **5% significance level; ***1% significance level. **Regions:** EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; LCR = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; SAR = South Asia Region. ADB = Asian Development Bank; AfDB = African Development Bank; CPIA = Country Policy and Institutional Assessment; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; EU = European Union; GDP = gross domestic product; IBRD = International Bank for Reconstruction and Development; IDB = Inter-American Development Bank; IFC = International Finance Corporation; IMF = International Monetary Fund; MIGA = Multilateral Investment Guarantee Agency.

TABLE B.19 Full Regression Results—Dependent Variable: *Incremental World Bank Lending*
Crisis Indicator: *Composite Crisis Indicator (principal factor score)*

	Dependent variable: Incremental lending by World Bank (\$ millions)								
	Model 1	Model 2	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Composite score—principal factor	–39.595 (0.575)	–43.890 (0.553)	–35.476 (0.631)	–41.607 (0.589)	–41.682 (0.576)	25.322 (0.695)	–73.740 (0.523)	–81.398 (0.440)	–66.365 (0.514)
Relative size of economy	3637.8 (0.688)	3695.4 (0.685)	3517.4 (0.698)	2372.0 (0.793)	3056.6 (0.742)	3168.2 (0.716)	3698.9 (0.696)	3787.7 (0.681)	4349.0 (0.636)
IBRD-eligible country	199.41** (0.016)	203.03** (0.016)	146.20 (0.131)	123.75 (0.158)	140.22* (0.066)	–53.016 (0.720)	194.36 (0.200)	209.56 (0.104)	203.79 (0.117)
Log of population	62.308* (0.075)	66.644* (0.076)	60.783 (0.101)	80.962* (0.076)	80.001* (0.059)		68.712* (0.089)	51.063 (0.202)	47.382 (0.223)
Pre-crisis World Bank lending volume (mean centered)	0.6489* (0.059)	0.6284* (0.072)	0.6460* (0.061)	0.6087* (0.073)	0.7115** (0.046)	0.9066*** (0.005)	0.6792* (0.075)	0.7044* (0.051)	0.6651* (0.071)
Fiscal deficit at onset of crisis (2007-08)		–4.2317 (0.544)	–3.5555 (0.628)	–3.3844 (0.639)	–3.7812 (0.580)	–1.4466 (0.848)	–7.6974 (0.328)	–7.5225 (0.284)	–11.012 (0.139)
CPIA			87.105 (0.382)						
Pre-crisis country risk rating				–5.5375* (0.062)					
Pre-crisis share of World Bank in major donor lending					–463.35 (0.273)				
Log of GDP per capita (2005-07)						147.55 (0.107)			
EAP							–123.41 (0.614)		
ECA							–109.21 (0.677)		
LCR							15.474 (0.938)		
MNA							–67.935 (0.695)		
SAR							–260.99 (0.411)		

TABLE B.19 Full Regression Results—Dependent Variable: *Incremental World Bank Lending*
Crisis Indicator: *Composite Crisis Indicator (principal factor score)* (continued)

	Dependent variable: Incremental lending by World Bank (\$ millions)								
	Model 1	Model 2	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
IMF borrower in 2009-10								-3.3844	8.9485
								(0.983)	(0.955)
ADB borrower in 2009-10								132.02	200.43
								(0.483)	(0.298)
AfDB borrower in 2009-10								251.76	311.31
								(0.155)	(0.111)
EBRD borrower in 2009-10								-36.950	73.254
								(0.900)	(0.792)
EIB borrower in 2009-10								-23.541	-8.4317
								(0.915)	(0.971)
IDB borrower in 2009-10								264.62	306.37
								(0.215)	(0.183)
EU borrower in 2009-10								-685.39	-617.18
								(0.105)	(0.122)
IFC/MIGA borrower in 2009-10								16.548	25.398
								(0.840)	(0.753)
squared Composite score—principal factor (mean centered)									-73.030
									(0.203)
Constant	-420.55	-467.24	-697.30	-194.46	-423.46	-824.77	-435.52	146.97	71.345
	(0.184)	(0.174)	(0.146)	(0.626)	(0.193)	(0.162)	(0.210)	(0.823)	(0.912)
Observations	89	88	87	83	88	88	88	88	88
R-squared	0.432	0.432	0.434	0.443	0.439	0.436	0.441	0.463	0.468

Note: p values in parentheses. *10% significance level; **5% significance level; ***1% significance level. CPIA = Country Policy and Institutional Assessment; EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; LCR = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; SAR = South Asia Region. ADB = Asian Development Bank; AfDB = African Development Bank; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; EU = European Union; IFC = International Finance Corporation; IMF = International Monetary Fund; MIGA = Multilateral Investment Guarantee Agency.

TABLE B.20 Full Regression Results—Dependent Variable: *Incremental World Bank Lending as % of GDP*. Crisis Indicator: *Composite Crisis Indicator (principal factor score)*

	Dependent variable: Incremental World Bank lending as % of GDP									
	Model 1	Model 2	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	
Composite score— principal factor	−0.02858 (0.823)	−0.009761 (0.943)	0.01921 (0.888)	0.01855 (0.900)	−0.009456 (0.946)	−0.05308 (0.691)	0.004193 (0.979)	0.1063 (0.538)	0.09394 (0.591)	
Relative size of economy	−3.2074* (0.053)	−3.3698* (0.075)	−3.7508* (0.052)	−4.3745** (0.029)	−3.3849* (0.085)	−4.6537*** (0.007)	−3.5704* (0.062)	−2.4209 (0.285)	−2.6932 (0.285)	
IBRD-eligible country	−0.07361 (0.642)	−0.1066 (0.496)	−0.3278 (0.119)	−0.2801 (0.191)	−0.1055 (0.503)	0.05354 (0.816)	−0.03011 (0.887)	0.01811 (0.932)	0.02181 (0.920)	
Log of population	−0.02256 (0.615)	−0.02773 (0.566)	−0.04707 (0.349)	−0.05442 (0.378)	−0.02919 (0.565)		−0.01918 (0.725)	−0.05981 (0.333)	−0.05395 (0.391)	
Pre-crisis World Bank lending volume as % of GDP (mean centered)	−0.3316* (0.073)	−0.3604* (0.055)	−0.4303** (0.028)	−0.3229 (0.120)	−0.3647* (0.082)	−0.4589** (0.022)	−0.4114** (0.038)	−0.4806** (0.019)	−0.4839** (0.020)	
squared Pre-crisis World Bank lending volume as % of GDP (mean centered)	0.1523*** (0.000)	0.1605*** (0.000)	0.1753*** (0.000)	0.1548*** (0.000)	0.1612*** (0.000)	0.1700*** (0.000)	0.1637*** (0.000)	0.1753*** (0.000)	0.1760*** (0.000)	
Fiscal deficit at onset of crisis (2007-08)		−0.03429* (0.052)	−0.03665** (0.039)	−0.03138* (0.087)	−0.03434* (0.055)	−0.03488** (0.030)	−0.05099*** (0.007)	−0.05709*** (0.006)	−0.05479** (0.012)	
CPIA			0.2932* (0.099)							
Pre-crisis country risk rating				−0.01013* (0.076)						
Pre-crisis share of World Bank in major donor lend- ing as % of GDP					0.03546 (0.952)					
Log of GDP per capita (2005-07)						−0.1537 (0.246)				
EAP							−0.2316 (0.449)			
ECA							−0.1579 (0.666)			
LCR							−0.3217 (0.248)			

TABLE B.20 Full Regression Results—Dependent Variable: *Incremental World Bank Lending as % of GDP*. Crisis Indicator: *Composite Crisis Indicator (principal factor score) (continued)*

	Dependent variable: Incremental World Bank lending as % of GDP								
	Model 1	Model 2	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
MNA							−0.4809*		
							(0.093)		
SAR							−0.6554*		
							(0.087)		
IMF borrower in 2009-10								0.07753	0.06833
								(0.623)	(0.661)
ADB borrower in 2009-10								0.6013*	0.5510*
								(0.081)	(0.093)
AfDB borrower in 2009-10								0.8737**	0.8276**
								(0.021)	(0.027)
EBRD borrower in 2009-10								0.6774*	0.5912
								(0.077)	(0.116)
EIB borrower in 2009-10								−0.1545	−0.1615
								(0.477)	(0.448)
IDB borrower in 2009-10								0.5791*	0.5465
								(0.082)	(0.101)
EU borrower in 2009-10								0.1534	0.1097
								(0.625)	(0.690)
IFC/MIGA borrower in 2009-10								0.3598	0.3530
								(0.150)	(0.169)
squared Composite score - principal factor (mean centered)									0.05581
									(0.631)
Constant	0.5490	0.5797	−0.2079	1.6164*	0.5811	1.3736	0.6409	−0.4355	−0.4175
	(0.194)	(0.213)	(0.716)	(0.071)	(0.212)	(0.133)	(0.224)	(0.491)	(0.498)
Observations	89	88	87	83	88	88	88	88	88
R-squared	0.246	0.272	0.300	0.293	0.272	0.280	0.306	0.356	0.358

Note: p values in parentheses. *10% significance level; **5% significance level; ***1% significance level. EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; LCR = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; SAR = South Asia Region. ADB = Asian Development Bank; AfDB = African Development Bank; CPIA = Country Policy and Institutional Assessment; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; EU = European Union; IFC = International Finance Corporation; IMF = International Monetary Fund; MIGA = Multilateral Investment Guarantee Agency.

3. Resource Allocation—Detailed Comparison of Regional MDBs and the World Bank

ADB versus the Bank

In the set of 29 countries that borrowed from both the World Bank and ADB, between 2005 and 2010, Bank lending in the pre-crisis period (FY05–07) was higher than that of the ADB (average annual lending of \$7.8 billion versus \$9.1 billion).⁴⁴ During the crisis period (2009–10), increase in Bank lending was also higher than that of ADB (107 percent versus 69 percent), translating into average annual lending of \$18.8 billion and \$13.3 billion, respectively.

IEG analysis suggests that although overall incremental lending to the common set of borrowers by the World Bank was higher than incremental ADB lending (annual average of 9.7 billion versus 5.4 billion), incremental ADB response, in terms of commitments, was comparatively higher for countries with higher crisis intensity (measured as drop in GDP) than the World Bank response was. For instance, for the first quartile of countries in this group, that is, those with the highest GDP decline⁴⁵ (including Armenia, Mongolia, and Georgia), increase in ADB lending was higher than the World Bank (\$915 million versus \$304 million). This is in contrast to the pre-crisis period when ADB lending was higher than the Bank in only two of seven countries in the first quartile of GDP decline. During the crisis period ADB's lending commitments exceeded the Bank in six of seven countries in the first quartile of GDP decline.⁴⁶ Incremental lending by both institutions in the crisis period was concentrated in select borrowers, more so for the World Bank than ADB. For the World Bank, three countries (India, Indonesia, and Kazakhstan) accounted for 75 percent of all incremental Bank lending. Similarly, ADB incremental lending was also concentrated in select borrowers: three countries (namely, India, Vietnam and Kazakhstan) received 40 percent of ADB incremental borrowing during the crisis. However, with the exception of Kazakhstan (which was in the second quartile of GDP decline), India, Indonesia and Vietnam were in the quartile with the second lowest crisis impact.

Among the common set of borrowers, incremental World Bank response was focused on some of the larger pre-crisis borrowers. This was also true for ADB but to a lesser degree. For instance, India, Indonesia, and Vietnam accounted for 50 percent of all Bank borrowing in FY05–07 and their share in incremental lending was higher during the crisis period (68 percent). These countries also received a large share of ADB lending in the pre-crisis period (36 percent) while their share in incremental lending in the crisis period was slightly higher (40 percent). Finally, higher ADB incremen-

tal response was associated with countries without an IMF program. ADB's own evaluation finds that the growth rates of ADB loan and grant *disbursements and net-resource transfers* were lower for severely affected countries compared to moderately affected and least affected countries.⁴⁷

IDB versus the Bank

In FY05–07, among the countries that are eligible to borrow from both IDB and the Bank, IDB had the highest average annual lending compared to the Bank (\$7.4 billion versus \$5.3 billion). However, during the crisis period, Bank ramped up its lending relative to IDB (\$8.7 billion versus \$6.9 billion in annual average terms), leading to an average annual lending volume of approximately \$14 billion for both Bank and IDB during the crisis.

For both IDB and the Bank, Mexico and Brazil accounted for the bulk of incremental lending (54 percent for IDB and 74 percent for the Bank), and was almost double their share in pre-crisis lending. Excluding these countries, incremental lending was higher by IDB than the Bank (\$3.2 versus \$2.2 billion).

Despite these similarities, IDB's incremental response appears better related to crisis intensity compared to the Bank. For instance, Venezuela and Jamaica, which were highly affected, accounted for some 15 percent of incremental lending by IDB and only 1.5 percent for the Bank. In fact, if Mexico is excluded (it accounted for about 50 percent of incremental Bank lending to this group of countries), IDB had a higher increase in lending to countries with above average crisis effects than the Bank (\$1.7 versus \$1.1 billion).

For this group of countries, both IDB and the Bank were on average associated with IMF lending. However, for the Bank, much of this was driven by Mexico. Excluding Mexico, Bank lending increase to IMF program countries was 113 percent (260 percent including Mexico) versus 102 percent for non-IMF program countries. By contrast, IDB lending for IMF countries was 139 percent (164 percent including Mexico) versus 58 percent for non-IMF program countries, excluding Mexico.

AfDB versus the Bank

In the pre-crisis period, Bank lending commitments far exceeded that of AfDB (\$5.5 billion \$1.3 billion). During the crisis period, both Bank and AfDB stepped up its lending to countries that are eligible to borrow from both (116 percent for AfDB and 117 percent for ADB).

Even though overall Bank response was much larger than AfDB, AfDB response was greater than Bank response in 6 of the 10 countries with the highest crisis, while incremental

lending by Bank was greater than AfDB in 17 of 29 countries with the lowest crisis effects.

The analysis suggests that on average, for both the Bank and AfDB, incremental response was not strongly correlated with crisis intensity.⁴⁸ This is not to say that affected countries did not receive any incremental AfDB lending, 8 out of 20 most affected countries also had AfDB incremental response in the top 20. Similarly, of the 20 countries with above average crisis intensity (for the sample of common borrowers), 8 also had high incremental Bank lending (top 20). These included South Africa, Botswana, Angola, Egypt, Ghana, Kenya, and Ethiopia.

For both AfDB and the Bank, incremental response corresponded to bigger economies.⁴⁹ Finally, higher volumes of Bank lending in the past was observed to be correlated with higher incremental response, and particularly driven by IDA countries, but such a pattern was not apparent for AfDB.

EBRD versus the Bank

In the pre-crisis period, EBRD lending exceeded Bank lending (\$6 billion vs. \$4 billion) among countries eligible to borrow from both EBRD and the Bank. During the crisis period,

incremental lending by the Bank exceeded that of EBRD (\$6 billion vs. \$4 billion).

The analysis suggests that incremental EBRD lending was strongly responsive to crisis intensity, but the relationship was weaker for the Bank, for countries eligible to borrow from both. For instance, the 10 countries with the highest crisis impacts received more than 60 percent of incremental EBRD lending and 35 percent of incremental Bank lending. Even though overall incremental Bank lending was higher than EBRD, for this group of 10 countries with highest crisis, incremental EBRD lending exceeded the Bank (\$3 billion versus \$2 billion). Meanwhile, Bank incremental response was highest for countries that were relatively less affected. For countries in 10-country band 2, based on crisis severity, Bank response was the highest (\$2.3 billion) compared to EBRD (\$1.6 billion).

Bank response was much more concentrated than EBRD.⁵⁰ Two countries, Kazakhstan (top 10 in terms of crisis) and Poland (bottom 10 in terms of crisis) accounted for 25 percent and 28 percent of all incremental lending. For EBRD the top two borrowers—Russia and Ukraine (top three in terms of crisis)—accounted for 27 percent of all incremental lending.

Financial Sector Data

1. Financial Sector Portfolio Analysis

TABLE C.1 Total and Financial Sector Lending by Levels Overall and Financial Sector Stress, FY09-10 (US\$ millions)					
GDP stress category	Total Bank commitments by GDP stress	FS Lending commitments by GDP stress	FS stress category	Total Bank commitments by FS stress	FS Lending commitments by FS stress
High	34,580	5,371	High	23,926	3,067
Medium	44,196	5,084	Medium	59,102	9,343
Low	26,980	2,956	Low	22,729	1,000
Total	105,756	13,410	Total	105,756	13,410
% High	33	40	High	23	23
% Medium	42	38	Medium	56	70
% Low	26	22	Low	21	7

Source: IEG portfolio analysis of projects with financial sector content during the crisis.
Note: Disbursements refer to March 31, 2011. FS = Financial Sector.

TABLE C.2 Total Bank Lending and Financial Sector Lending by Levels of Financial Sector and Overall Stress, FY09-10 (US\$ millions)							
FS Stress	GDP Stress	High\$	Medium\$	Low\$	High (%)	Medium (%)	Low (%)
		Total Bank Commitments					
High		13,073	21,160	347	12	20	0
Medium		5,653	25,251	13,292	5	24	13
Low		5,200	12,691	9,089	5	12	9
FS Lending Commitments							
High		1,612	3,753	6	12	28	0
Medium		333	4,226	525	2	32	4
Low		1,123	1,364	469	8	10	3

Source: IEG portfolio analysis of projects with financial sector content during the crisis.
Note: Data on total Bank commitments refers to all borrowing countries during the crisis period (133). Data on FS lending commitments refers to all operations with any FS content during the crisis period, weighted by FS content. FS = Financial Sector.

TABLE C.3 Financial Sector Lending by Sector Board FY09-10 (US\$ million)

Sector Board	All projects with financial sector content		Crisis projects (77) (unweighted)		Crisis projects (77) (weighted)	
	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements
ARD	634	117	392	97	168	53
ENV	1,311	1,309	11	9	3	2
EP including PSG	14,401	11,867	13,861	11,333	3,377	2,509
FPD	11,625	6,963	11,328	6,893	9,205	6,107
HD, POV, and SP	220	66	109	48	12	7
INF and other	215	0	115	—	37	—
Total all projects	28,407	20,322	25,816	18,381	12,803	8,679

Source: IEG portfolio analysis of projects with financial sector content during the crisis.

Note: Disbursements as of March 31, 2011. **Sectors:** ARD = Agriculture and Rural Development; ENV = Environment; EP = Economic Policy; FPD = Finance and Private Sector Development; HD = Human Development; INF = Infrastructure; POV = Poverty; PSG = Public Sector Governance; SP = Social Protection.

TABLE C.4 Financial Sector Crisis Projects by Instrument, FY09–10 (number)

Instrument	All projects in the financial sector (FY09–FY10)			At least 25% financial sector content		
	Noncrisis 29	Crisis 77	Total	Noncrisis	Crisis	Total
DPL-single-tranche nonprogrammatic	5	19	24		13	13
DPL-multi-tranche (2 or 3)	1	5	6		3	3
DPL-programmatic	2	20	22	1	9	10
DPL-DDO		5	5		2	2
FIL	2	15	17	1	15	16
SIL	17	10	27	13	7	20
TAL	1	1	2	1	1	2
Other	1	2	3	1	1	2
Total	29	77	106	17	51	68

Source: IEG portfolio analysis of projects with financial sector content during the crisis.

Note: APLs and ERLs are included in others. DDO = Draw-Down Option; DPL = Development Policy Loan; FIL = Financial Intermediary Loan; SIL = Specific Investment Loan; TAL = Technical Assistance Loan.

TABLE C.5 Objectives of Projects with Financial Sector Lending, FY09–10

Average scores	Macroeconomic/ fiscal content	Social protection content	Financial sector content
All 106 projects	2.2	1.8	2.8
77 crisis-related projects	2.4	1.9	2.8
51 crisis-related projects with \geq 25% financial sector content	2.1	1.7	3.2
27 crisis-related projects with \geq 50% financial sector content	1.6	1.4	3.6

Source: IEG portfolio analysis of projects with financial sector content during the crisis.

Note: Average scores, based on the scale: high / substantial / modest/ negligible = 4, 3, 2, 1.

TABLE C.6 Financial Sector Projects by Region (FY09 and FY10)				
Region	Number of projects	Crisis 77	Noncrisis 29	Crisis and FS > 25%
Africa	22	8	14	3
East Asia and Pacific	16	11	5	5
Europe and Central Asia	24	22	2	18
Latin America and the Caribbean	20	18	2	11
Middle East and North Africa	11	8	3	6
South Asia	13	10	3	8
Total	106	77	29	51

Source: IEG portfolio analysis of projects with financial sector content during the crisis.

TABLE C.7 Financial Sector Projects: Sector and Theme Content (FY09 / FY10)					
	Crisis-related (77) (%)	Noncrisis (29) (%)		Crisis-related (77) (%)	Noncrisis (29) (%)
By sector codes			By theme codes		
FA Banking	13	15.1	38 Corporate governance	0.9	1.4
FB Non-compulsory health finance	0	5.1	39 Infrastructure services for private sector development	2.8	1.5
FE Micro- and SME finance	14	10.9	40 Regulation and competition policy	11.4	6.1
FG Payment systems, securities clearance and settlement	1	0.7	41 Small and medium enterprise support	11.3	8.5
FD Non-compulsory pensions, insurance and contractual savings	3	0.0	42 Standards and financial reporting	3.2	2.2
FK Capital markets	2	0.0	43 State enterprise/bank restructuring and privatization	4.0	6.0
FZ General finance	9	6.7	44 Other financial and private sector development	10.8	13.8
FC Housing finance and real estate markets	3	6.6			

Source: IEG portfolio analysis of projects with financial sector content during the crisis.

2. Financial Sector 18-Country In-Depth Analysis

TABLE C.8 World Bank Engagement in the Financial Sector before the Crisis						
	Average score 18 countries	Number of responses	Scores (frequency—no. of countries)			
			4	3	2	1
Was the financial sector considered an <i>area of priority in the CAS</i> document preceding the crisis?	2.8	16	3	7	6	0
Did the financial sector account for a <i>significant part of the lending program</i> prior to the crisis?	2.2	16	2	4	5	5
Did the country program make provisions for ongoing financial sector engagement through AAA—FSAP, ESW or NLTA?	3.1	17	4	10	3	0
Did the country program incorporate provisions for <i>financial sector stability enhancement</i> ?	2.4	16	2	5	6	3
Did the country program describe the need for <i>expanded access</i> to financial services?	3.1	16	5	8	3	0
Did the country program incorporate <i>other areas</i> of financial sector engagement?	2.5	16	3	5	5	3
Had the Bank offered technical assistance to the financial system in the last five years?	3.1	17	8	5	2	2
Other Had the Bank undertaken a crisis response simulation in the country concerned?	1.6	18	3	0	1	14
Overall, was the focus of recent engagement (over past 5 years) relevant given the experiences of the country during the crisis?	3.2	18	8	6	4	0
Was recent engagement adequate given the experiences of the country during the crisis?	3.4	18	10	6	2	0
What was the quality of Bank engagement, in terms of depth of dialogue with relevant authorities, responsiveness of government/ financial supervisors to the Bank's engagement?	3.4	17	9	6	1	1

Source: IEG 18 in-depth country case studies.

Note: AAA = analytic and advisory activities; CAS = Country Assistance Strategy; ESW = economic and sector work; FSAP = Financial Sector Assessment Program; NLTA = Nonlending technical assistance.

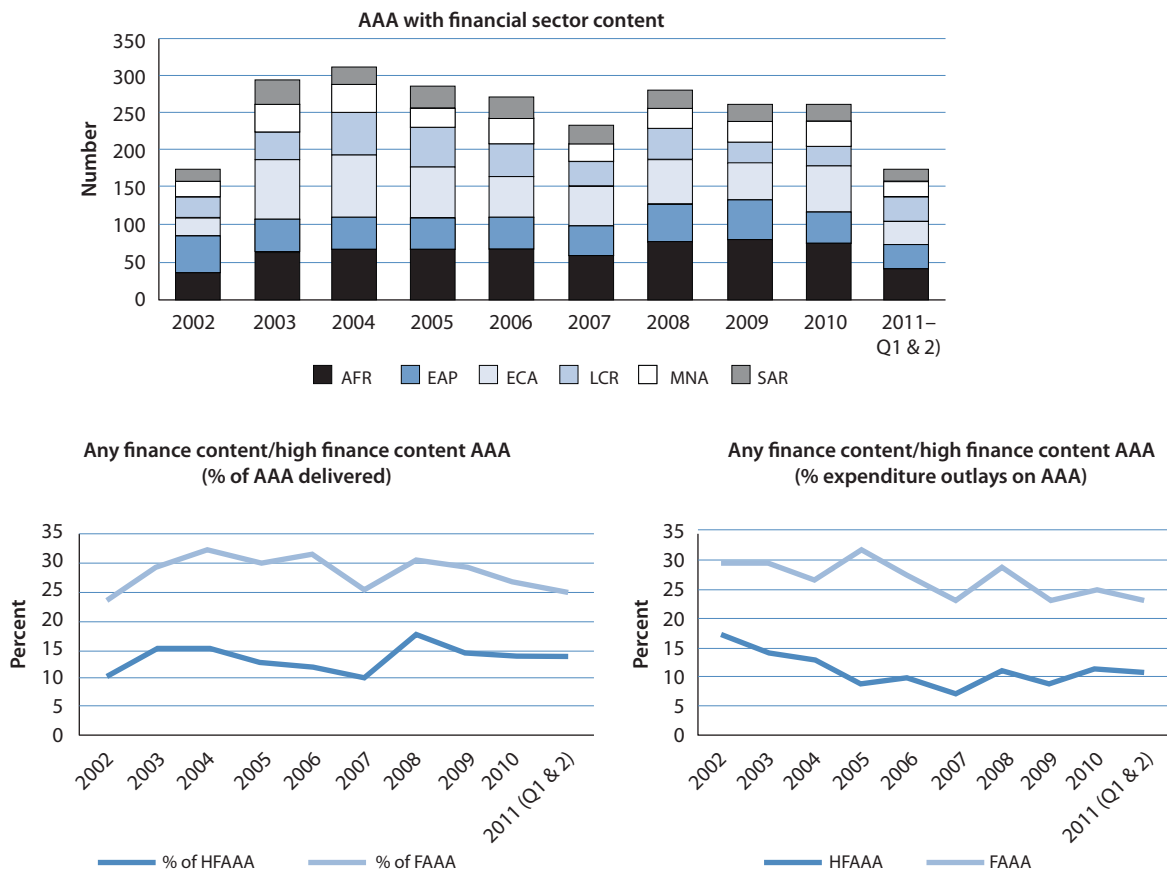
TABLE C.9 FSAP Contributions—18 Case Study Countries					
	Average 18 countries	High = 4	Substantial	Modest	Negligible
Had the country had a <i>recent FSAP</i> ? (1-3 years: high; 4-7 years: somewhat; more than 7 years, very little; never: not at all)	3.7	13	4	1	0
Were the findings of the <i>FSAP relevant</i> for the vulnerabilities experienced during the crisis?	3.4	8	7	2	0
To what extent had attempts been made to <i>support the implementation of FSAP findings</i> ?	3.0	5	8	3	1

Source: IEG analysis of 18 country case studies.

Note: FSAP = Financial Sector Assessment Program.

3. World Bank Financial Sector AAA: Run-Up to and During the Crisis

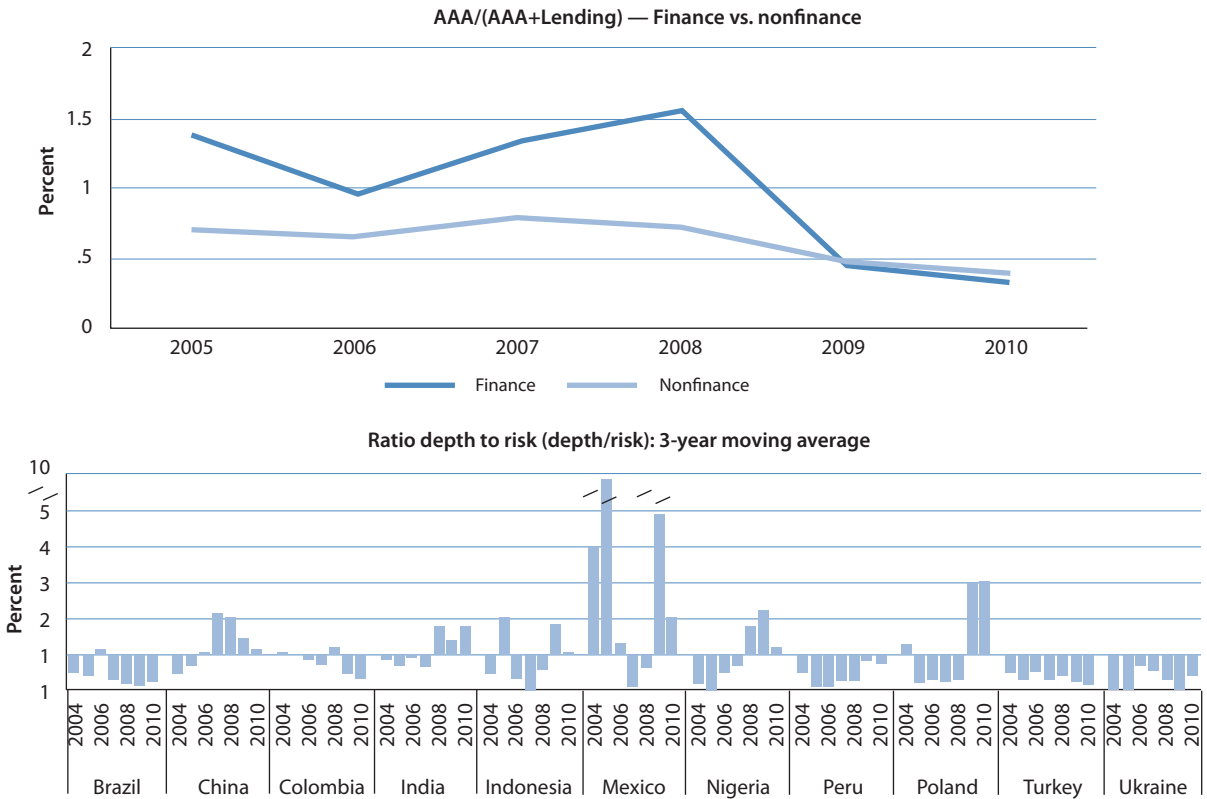
FIGURE C.1 Financial Sector AAA by Region and Content (FY02–10)



Source: World Bank data.

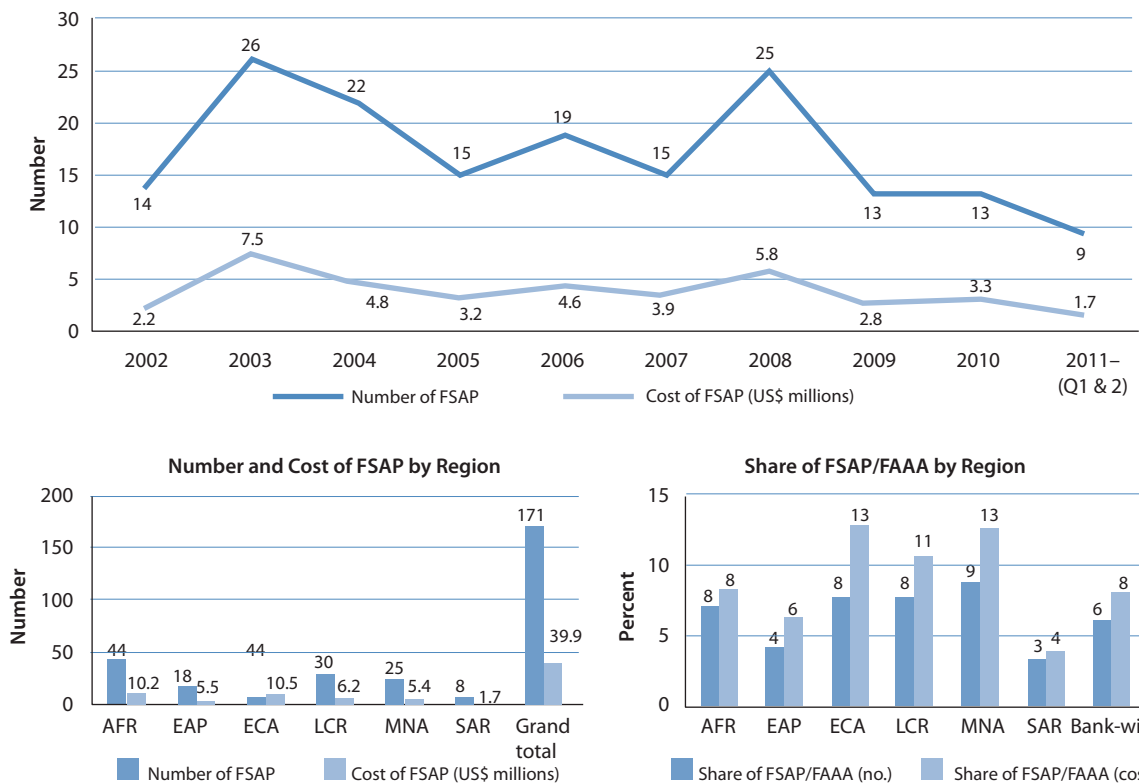
Note: AAA = analytic and advisory activities; FAAA = finance AAA; HFAAA = high-finance AAA. **Regions:** AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

FIGURE C.2 Financial Sector: Outlays on AAA Compared to Lending and Content of AAA (depth compared to risk)



Source: World Bank data.

FIGURE C.3 The FSAP Program: Numbers, Outlays, and Regional Focus, FY02-11, Q2



Source: World Bank data.

Note: FSAP = Financial Sector Assessment Program.

4. Foreign Bank Ownership—Helpful or Harmful?

The State of the Debate and Findings from the Present Evaluation

International banking presence has sharply increased in most regions over the past decade (Claessens and others 2008; Cull and Peira 2010). Share of assets held by foreign banks increased from an average of 17 percent in 1996 to 34 percent in 2005 in Latin America and 52 percent in Eastern Europe and Central Asia. In Sub-Saharan Africa foreign bank participation is close to 50 percent. A number of countries reviewed here—Croatia, Hungary, Latvia, and Ukraine—had high levels of foreign bank presence before the crisis (84, 65, 84, and 51 percent, respectively, in 2008). To what extent did this affect the vulnerability of those countries?

Foreign banks can have positive impacts on their host countries, ranging from increased domestic competition leading to the provision of better products and services at lower costs; improved market stability through deeper capital and liquidity resources; and better risk management and capital allocation (Levine 1996; Walter and Gray 1983). The benefits of greater efficiency, lower net interest margins, and greater

profitability have been demonstrated empirically (Claessens, Demirgüç-Kunt, and Huizing 2000, and 2001; Claessens and Laeven 2003; Micco, Panizza, and Yanez 2007; Bonin, Hasan, and Wachtel 2005). But foreign banks can also lead to loss of domestic banks’ market share, increased market consolidation, and “cherry picking” of the lowest-risk clients (Stiglitz, Jaramillo-Vallejo, and Park 1993; Detragiache, Tressel, and Gupta 2008; Levy-Yeyati and Micco 2007).

In the context of crises, cross-country evidence from developed and developing countries has indicated that greater foreign bank presence is associated with lower probability of systemic banking crisis in the host country (Demirgüç-Kunt and Detragiache 1998). More recently there is evidence that financial liberalization has made domestic financial markets more prone to crises (Kose and others 2009; Reinhart and Rogoff 2009a). A growing body of literature suggests that foreign affiliates of multinational banks may indeed act as shock transmitters (Imai and Takarabe 2011).

As shown in this evaluation, foreign banks in several East European countries that had relatively easy access to capital from their parents (compared to the relatively difficult establishment of a stable domestic deposit base), and in a context

of lax domestic regulation, were spurred to high levels of foreign currency-denominated lending. Loans were extended for long maturities, as in mortgage loans, mismatched against short- to medium-funding. Domestic banks, forced to compete, took large syndicated loans from abroad to finance their own consumer lending, adding rollover risk to maturity mismatch. In the prevailing “currency peg” arrangements, risks to consumers of foreign currency-denominated borrowing were not debated. From the perspective of parent banks, given the small size of these subsidiaries, increased risk has not been a major issue on a consolidated basis, and incentives to undertake consolidated supervision may not be high. Increased foreign ownership poses challenges to host supervisory authorities because of migration of decision-making to foreign banks’ parent structures, and differences between home and host country regulatory systems. This is exacerbated as the parent banks localize certain functions (treasury, back office, and so forth) for the entire bank in particular branches. Clearly the nature of host country policies toward the financial sector, as well as regulation and supervision, can affect the degree of risk encountered and hence the risk-benefit tradeoff.

It is true that during the crisis, owners by and large provided the additional capital needed by subsidiaries, but parent banks may not always come to the assistance of their subsidiaries, and processes have not been formalized. This also depends on the financial strength of the parent bank (De Haas and Van Lelyveld 2010). Schnabl (2011) suggests that globalization in the banking sector establishes a transmission channel for bank liquidity shocks, but that foreign bank ownership mitigates rather than amplifies the transmission through this channel. In the case of cross-border lending to emerging markets, not only do foreign bank subsidiaries provide for a relatively stable credit source, but their local presence may also stabilize the cross-border component of bank lending during crises (De Haas and Van Horen 2011).

Organizational and regulatory arrangements for cross-border lending matter. Fiechter and others (2011) show that there is no one obvious structure that is best suited in all cases for cross-border expansion from the financial stability perspective. FSAPs could be more alert to cross-border issues. There is a need for more consistency, coordination, and mutual reliance.

5. Financial Sector Lending Before and During the Crisis

A Comparison in Three Countries

In Egypt, before the crisis, the Bank’s engagement included solid diagnostic work (an FSAP in 2002 and an FSAP Up-

date in 2007), which were the basis for two programmatic financial sector DPLs in FY06 and FY08 of \$500 million each. These programs, coordinated with the AfDB, the EU, and USAID, supported the ambitious 2004-08 Egyptian financial sector reform program, which included numerous major milestones—restructuring and recapitalization of four commercial banks, privatization of one state bank, and bringing another to the point of sale. State-owned banks also sold their shares in joint venture banks, reducing state presence in banking from 80 percent of bank assets to below 50 percent. Consolidation through increases in minimum capital reduced private banks from 53 in 2004 to 36 more robust banks in 2008. A new credit bureau strengthened financial infrastructure and a secure large value (real-time gross settlement) payments system was completed. State-owned insurance companies were restructured and consolidated, and insurance supervision was improved substantially. Intermediaries in the capital market were subjected to higher capital requirements and improved supervision.

As described above, during the crisis, DPL III supported second-generation reforms. Its prior conditions focused substantially though not exclusively on strengthening of bank regulation, supervision, and macro-prudential regulation. However, known key legal issues—the lack of a modern bankruptcy and insolvency regime and an effective registry of moveable collateral—were not addressed.

In Guatemala, the Bank’s involvement in pre-crisis lending began with extensive discussion of the 2000 FSAP. The 2002 three-tranche Financial Sector Adjustment Loan (FSAL) (\$150 million), which followed a macroeconomic crisis, supported a number of major financial reforms, together with its associated FSAL. Its prior conditions included passage of four major laws that (i) modernized the conduct of monetary, financial, and exchange rate policy and limited the Central Bank’s formerly unlimited liability in liquidity support; (ii) strengthened regulation of financial groups on-shore, as well as their large off-shore subsidiaries; (iii) provided for sanctions on and orderly exit of weak banks; and (iv) strengthened bank supervision and moved Guatemala closer to international standards. The FSAL’s second and third tranches also supported significant reform, as well as the creation of a real-time gross settlement payments system, a credit information system, a moveable property law, and deposit insurance and a bank resolution institution. The latter two institutions proved critical in avoiding a systemic crisis during 2006-07, because of the bankruptcy of a major Guatemalan bank. The stronger regulation and supervision helped reduce the number of smaller weak banks. The 2005 FSAP Update concluded that progress had been made, although much remained to be done.

Guatemalan banks largely avoided the impacts of the global financial crisis. Development Policy Loans (DPLs) during the crisis focused elsewhere; prior conditions in finance were limited in scope and related to improving the coverage of risk-based and consolidated supervision, the standardization of debt issues to help develop the capital market, and passage of a law enhancing moveable collateral.

The 2002 Morocco FSAP recommended cleaning up the ailing public sector specialized banks, strengthening financial regulation and supervision, and upgrading financial infrastructure. The Bank's two-tranche 2005 Financial Sector DPL supported these objectives with a new central bank law that confers greater autonomy on the central bank in monetary policymaking, supervision of the banking system, and intervention in financially troubled banks, reflecting a strong set of legal reforms. Morocco also effectively closed the weakest state-owned specialized bank and addressed the long-standing nonperforming loans and weak capital positions of the two others. Improvements were made in bank regulation and supervision, including a shift toward risk-based supervision. Liberalization of insurance premiums was completed, and regulation and supervision of the insurance market was im-

proved. Financial infrastructure also was improved through an RTGS payments system, improvements in financial reporting, and accounting and auditing standards.

The global financial crisis did not have a major direct impact on Morocco's financial system, but banks did suffer rising nonperforming loans from the previous rapid growth in lending for housing and to microfinance institutions. The major effects were in the macro-economy: a fall in capital inflows, declines in exports, tourism and remittances, a rising fiscal deficit. The Bank supported the government with a two-tranche DPL in December 2009 for sustainable access to finance that supported the creation of a postal bank, a credit bureau, establishment of regulations for loan classification, provisioning and governance in microfinance institutions. Measures also included improvements in bank regulation and supervision, draft laws to improve supervision of insurance companies, pension funds, and, in capital markets, improvements in public debt management and marketing. Morocco's DPL 2009 focused on both problems in microfinance and access to finance—which were arguably more relevant in Morocco given its large microfinance segment which had recently experienced rapid growth.

6. Case Study Countries: Ranks by Financial Stress Indicators

TABLE C.11 Country Ranks by Financial Stress Indicators

Ranks—Sampled countries in all countries			GDP		Banking			
			Real GDP actual (growth rate)	Real GDP forecast (growth rate)	Deposits (levels)	Deposits (growth rate)		Liquidity support (levels)
Country	IBRD/IDA	Population (in millions)	Percentage point change	Percentage point change	Percentage change (peak to trough)	Percentage point change	Percentage change (peak to trough)	Percentage change (peak to trough)
Armenia	Blend	3.3	2	1	60	82	64	64
Colombia	IBRD	45	60	71	34	80	51	47
Costa Rica	IBRD	4.6	34	55	28	29	74	35
Croatia	IBRD	4.4	20	16	54	36	97	16
Egypt, Arab Rep. of	IBRD	76.7	103	94	19	56	28	98
Grenada	Blend	0.1	14	11	77	100	114	43
Guatemala	IBRD	14.013	69	66	48	99	127	93
Hungary	Graduated	10	28	24	66	51	53	5
India	Blend	1199.1	73	96	113	79	56	10
Latvia	Graduated	2.3	1	3	7	5	89	21
Mexico	IBRD	107.6	22	26	75	97	63	82
Moldova	IDA	3.6	16	4	55	8	77	26
Mongolia	IDA	2.7	23	17	5	12	47	44
Morocco	IBRD	31.7	127	118	112	48	117	54
Nigeria	IDA	151.9	130	108	47	14	4	11
Turkey	IBRD	70.5	17	21	95	63	67	4
Ukraine	IBRD	45.7	3	2	10	3	15	30
Uruguay	IBRD	3.3	82	110	70	123	66	58
No of countries ranked			142	140	131	132	132	112

Note: Real GDP Actual (Growth Rate) is defined as Actual GDP Growth in 2009 versus Actual GDP Growth in 2005-07. Real GDP Forecast (Growth Rate) is defined as Actual GDP Growth in 2009 versus Forecast GDP Growth for 2009 as given in April 2008 World Economic Outlook. Deposits. For average changes, we compare deposits in 2005-07 versus deposits in Jul 2008-Dec 2009. For peak to trough, the trough in Jul 2008-Dec 2009 is compared against the peak in Jan 2007-Mar 2008. Deposits growth rate is m-o-m growth rate. Deposits are in real terms. Credit. For average changes, we compare credit in 2005-07 versus credit in Jul 2008-Dec 2009. For peak to trough, the trough in Jul 2008-Dec 2009 is compared against the peak in Jan 2007-Mar 2008. Credit growth rate is year-on-year growth rate. Credit is in real terms. Liquidity Support is defined as Claims from Monetary Authorities on Deposit Money Banks as a ratio of Total Deposits. For average changes, we compare liquidity support in 2005-2007 versus that in Jul 2008-Dec 2009. For peak to trough, the peak in Jul 2008-Dec 2009 is compared against the trough in Jan 2007-Mar 2008. Liquidity Support growth rate is year-on-year growth rate. Stock Market Index. For average changes, we compare stock market index in 2005-2007 versus that in Jul 2008-Dec 2009. For peak to trough, the trough in Jul 2008-Dec 2009 is compared against the peak in Jan 2007-Mar 2008. Growth rate is year-on-year growth rate. These are not benchmark stock indices. EMBI. For average changes, we compare stock market index in 2005-07 versus that in Jul 2008-Dec 2009. For peak to trough, the peak in Jul 2008-Dec 2009 is compared against the trough in Jan 2007-Mar 2008. Growth rate is year-on-year growth rate. Exports. For average changes, we compare exports in 2005-2007 versus exports in 2009. Growth rate is year-on-year growth rate. Remittances. For average changes, we compare remittances in 2005-2007 versus remittances in 2009. Growth rate is year-on-year growth rate. Foreign Exchange Rate. For average changes, we compare fx rate in 2005-07 versus that in Jul 2008-Dec 2009. For peak to trough, the peak in Jul 2008-Dec 2009 is compared against the trough in Jan 2007-Mar 2008. Growth rate is year-on-year growth rate. Foreign Exchange rate is nominal exchange rate against USD. Foreign Reserves. For average changes, we compare fx reserves in 2005-07 versus that in Jul 2008-Dec 2009. For peak to trough, the trough in Jul 2008-Dec 2009 is compared against the peak in Jan 2007-Mar 2008. Growth rate is year-on-year growth rate.

	Credit			Financial Market		External			
	Private credit (levels)	Private credit (growth rate)		Stock market index (levels)	EMBI spread (levels)	Exports (growth rate)	Foreign exchange rate (levels)	Foreign exchange reserves (levels)	Remittances (levels)
	Percentage change (peak to trough)	Percentage point change	Percentage change (peak to trough)	Percentage change (peak to trough)	Percentage change (peak to trough)	Percentage point change	Percentage change (peak to trough)	Percentage change (peak to trough)	Percentage change
	125	47	13			65	43	26	68
	75	39	39	38	22	51	26	110	46
	93	68	49	26		34	80	43	60
	64	44	67	8		32	50	27	67
	14	60	81	13	10	9	111	84	76
	46	85	105			77	118	58	30
	28	62	73			100	102	106	55
	51	76	94	15	7	19	23	74	54
	63	40	75	22		20	39	60	110
	25	4	23	9		17	49	16	85
	44	35	53	32	28	23	29	83	11
	47	34	21			53	95	54	32
	29	9	10	18		115	28	14	43
	109	91	83	42		136	83	63	63
	123	99	5	12		7	32	34	106
	94	24	54	19	34	69	16	69	13
	62	21	24	1	1	44	3	37	118
	50	117	34		21	93	84	120	69
	129	129	129	46	38	147	139	126	121

TABLE C.11 Ranks of Sample Countries by Financial Stress Indicators (within sample ranking)

Within-sample country ranks			Real GDP actual (growth rate)	Real GDP forecast (growth rate)	Deposits (levels)	Deposits (growth rate)		Liquidity support (levels)
Country	IBRD/IDA	Population (in millions)	Percentage point change	Percentage point change	Percentage change (peak to trough)	Percentage point change	Percentage change (peak to trough)	Percentage change (peak to trough)
Armenia	Blend	3.3	2	1	11	14	9	15
Colombia	IBRD	45	12	13	6	13	5	12
Costa Rica	IBRD	4.6	11	11	5	6	12	9
Croatia	IBRD	4.4	7	6	9	7	15	5
Egypt, Arab Rep. of	IBRD	76.7	16	14	4	10	3	18
Grenada	Blend	0.1	4	5	15	17	16	10
Guatemala	IBRD	14.013	13	12	8	16	18	17
Hungary	Graduated	10	10	9	12	9	6	2
India	Blend	1199.1	14	15	18	12	7	3
Latvia	Graduated	2.3	1	3	2	2	14	6
Mexico	IBRD	107.6	8	10	14	15	8	16
Moldova	IDA	3.6	5	4	10	3	13	7
Mongolia	IDA	2.7	9	7	1	4	4	11
Morocco	IBRD	31.7	17	18	17	8	17	13
Nigeria	IDA	151.9	18	16	7	5	1	4
Turkey	IBRD	70.5	6	8	16	11	11	1
Ukraine	IBRD	45.7	3	2	3	1	2	8
Uruguay	IBRD	3.3	15	17	13	18	10	14
No. of countries ranked			18	18	18	18	18	18

Note: Real GDP Actual (Growth Rate) is defined as Actual GDP Growth in 2009 versus Actual GDP Growth in 2005-07. Real GDP Forecast (Growth Rate) is defined as Actual GDP Growth in 2009 versus Forecast GDP Growth for 2009 as given in April 2008 World Economic Outlook. Deposits. For average changes, we compare deposits in 2005-07 versus deposits in Jul 2008-Dec 2009. For peak to trough, the trough in Jul 2008-Dec 2009 is compared against the peak in Jan 2007-Mar 2008. Deposits growth rate is m-o-m growth rate. Deposits are in real terms. Credit. For average changes, we compare credit in 2005-07 versus credit in Jul 2008-Dec 2009. For peak to trough, the trough in Jul 2008-Dec 2009 is compared against the peak in Jan 2007-Mar 2008. Credit growth rate is y-o-y growth rate. Credit is in real terms. Liquidity Support is defined as Claims from Monetary Authorities on Deposit Money Banks as a ratio of Total Deposits. For average changes, we compare liquidity support in 2005-07 versus that in Jul 2008-Dec 2009. For peak to trough, the peak in Jul 2008-Dec 2009 is compared against the trough in Jan 2007-Mar 2008. Liquidity Support growth rate is y-o-y growth rate. Stock Market Index. For average changes, we compare stock market index in 2005-07 versus that in Jul 2008-Dec 2009. For peak to trough, the trough in Jul 2008-Dec 2009 is compared against the peak in Jan 2007-Mar 2008. Growth rate is y-o-y growth rate. These are not benchmark stock indices. EMBI. For average changes, we compare stock market index in 2005-07 versus that in Jul 2008-Dec 2009. For peak to trough, the peak in Jul 2008-Dec 2009 is compared against the trough in Jan 2007-Mar 2008. Growth rate is y-o-y growth rate. Exports. For average changes, we compare exports in 2005-07 versus exports in 2009. Growth rate is y-o-y growth rate. Remittances. For average changes, we compare remittances in 2005-07 versus remittances in 2009. Growth rate is y-o-y growth rate. Foreign Exchange Rate. For average changes, we compare fx rate in 2005-07 versus that in Jul 2008-Dec 2009. For peak to trough, the peak in Jul 2008-Dec 2009 is compared against the trough in Jan 2007-Mar 2008. Growth rate is y-o-y growth rate. Foreign Exchange rate is nominal exchange rate against USD. Foreign Reserves. For average changes, we compare fx reserves in 2005-07 versus that in Jul 2008-Dec 2009. For peak to trough, the trough in Jul 2008-Dec 2009 is compared against the peak in Jan 2007-Mar 2008. Growth rate is y-o-y growth rate.

	Private credit (levels)	Private credit (growth rate)		Stock market index (levels)	EMBI spread (levels)	Exports (growth rate)	Foreign exchange rate (levels)	Foreign exchange reserves (levels)	Remittances (levels)
	Percentage change (peak to trough)	Percentage point change	Percentage change (peak to trough)	Percentage change (peak to trough)	Percentage change (peak to trough)	Percentage point change	Percentage change (peak to trough)	Percentage change (peak to trough)	Percentage change
	18	10	3			12	9	3	12
	13	7	8	12	5	10	4	17	6
	14	13	9	10		8	12	7	9
	12	9	12	2		7	11	4	11
	1	11	15	5	3	2	17	15	14
	6	15	18			14	18	9	3
	3	12	13			16	16	16	8
	9	14	17	6	2	4	3	13	7
	11	8	14	9		5	8	10	17
	2	1	5	3		3	10	2	15
	5	6	10	11	6	6	6	14	1
	7	5	4			11	15	8	4
	4	2	2	7		17	5	1	5
	16	16	16	13		18	13	11	10
	17	17	1	4		1	7	5	16
	15	4	11	8	7	13	2	12	2
	10	3	6	1	1	9	1	6	18
	8	18	7		4	15	14	18	13
	18	18	18	13	7	18	18	18	18

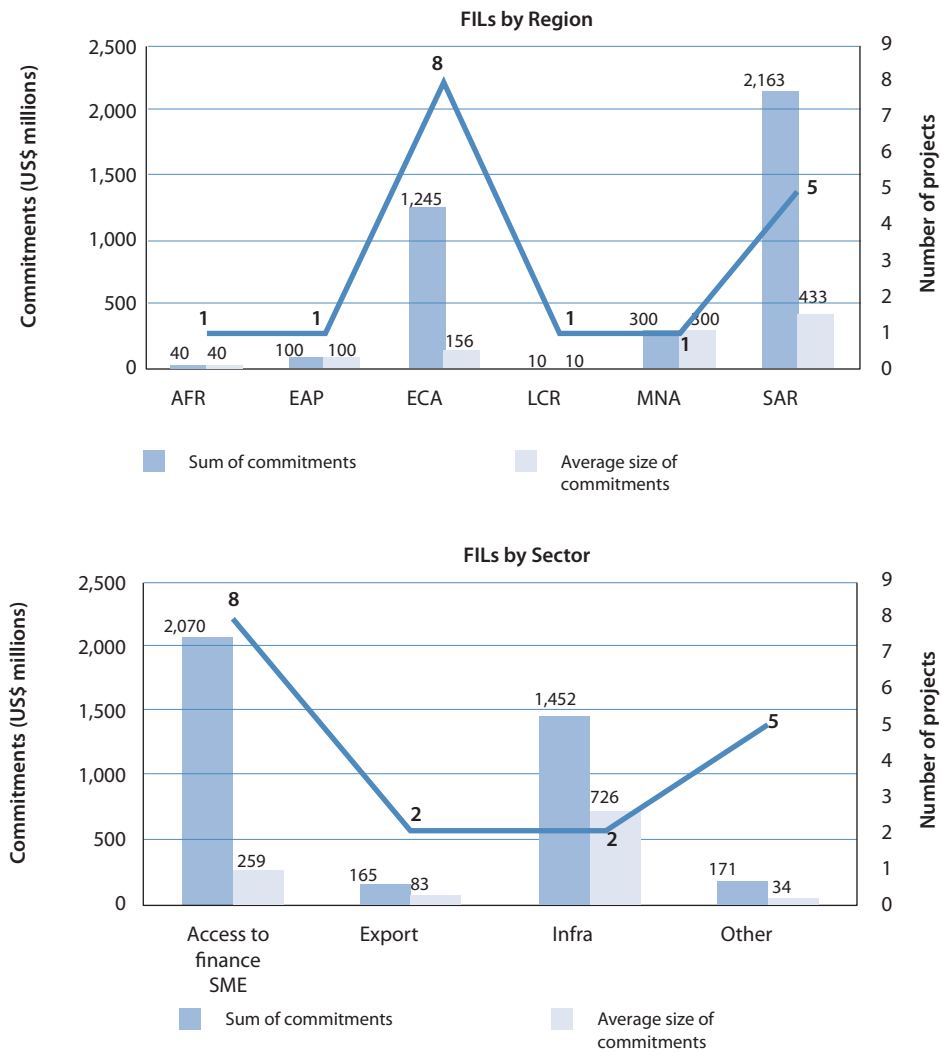
TABLE C.12 Case Study Countries: Real Credit to Private Sector (year-on-year growth)

Ranked by pre-crisis credit growth (highest to lowest)		Ranked by crisis period credit growth (lowest to highest 2008 to 2009)		Ranked by greatest declines in credit growth rates	
Country	CY05–07 average	Country	Jul 08–Dec 09 average	Country	Percent change
Latvia	0.44	Egypt, Arab Rep. of	–0.06	Egypt, Arab Rep. of	–99.91
Ukraine	0.44	Latvia	0.00	Latvia	–0.99
Armenia	0.39	Guatemala	0.00	Mexico	–0.92
Mongolia	0.36	Mexico	0.01	Guatemala	–0.92
Turkey	0.28	Mongolia	0.03	Mongolia	–0.91
Nigeria	0.26	Croatia	0.04	Colombia	–0.76
Moldova	0.22	Colombia	0.04	Croatia	–0.73
India	0.20	Moldova	0.07	Moldova	–0.69
Colombia	0.19	India	0.07	Turkey	–0.69
Mexico	0.16	Grenada	0.08	India	–0.64
Costa Rica	0.16	Uruguay	0.08	Ukraine	–0.48
Croatia	0.15	Turkey	0.09	Armenia	–0.26
Morocco	0.13	Hungary	0.11	Costa Rica	–0.24
Hungary	0.12	Costa Rica	0.12	Hungary	–0.09
Guatemala	0.06	Morocco	0.16	Nigeria	0.19
Grenada	0.06	Ukraine	0.22	Grenada	0.21
Egypt, Arab Rep. of	0.00	Armenia	0.29	Morocco	0.22
Uruguay	–0.06	Nigeria	0.31	Uruguay	2.27

Source: IMF international financial statistics.

7. Lending Data Tables

FIGURE C.4 World Bank Financial Sector Lending—Financial Intermediary Loans (FY09–10)



Source: World Bank data.

Note: FIL = Financial Intermediary Loan.

TABLE C.13 Lines of Credit: Pricing During the Crisis Relative to Market Conditions

Country	Bank/credit loan conditions	Bank interest rate (as of January 15, 2011)
Armenia Access to Finance for SMEs	US\$ VSL at 6 month LIBOR plus variable spread	LIBOR + 0.28% - 0.20% = 0.54 ^b
Bosnia & Herzegovina Enhancing SME Access to Finance	EUR VSL at 6 month LIBOR for Euro plus variable spread	EURIBOR + 0.28% = 1.50 ^a
Croatia Export Finance Intermediation Loan	EUR FSL at 6 months LIBOR plus fixed spread	EURIBOR + 0.95% - 0.20% = 1.97 ^b
Moldova Competitiveness Enhancement Project (CEP) AF	IDA Credit	service charge of 0.75% on disbursed balances.
Moldova Rural Investment and Services Project (RISPII) AF	IDA Credit	service charge of 0.75% on disbursed balances.
Turkey Access to Finance for SMEs AF1	US\$ and EUR FSL at 6 months LIBOR plus fixed spread	LIBOR + 0.75% - 0.20% = 1.00; EURIBOR + 0.75% - 0.20% = 1.77 ^b
Turkey Access to Finance for SMEs AF2	US\$ and EUR FSL at 6 months LIBOR, plus fixed spread	LIBOR + 0.75 = 1.20; ^a EURIBOR + 0.75 = 1.97
Turkey Second Access to Finance for SMEs	Kalkinma US\$ VSL 6 months LIBOR for US\$ plus variable spread. Ziraat Bank US\$ VSL at 6 months LIBOR for US Dollars plus variable spread Vakıf Bank US\$ VSL at 6 months LIBOR for US\$ plus variable spread	LIBOR + 0.28 = 0.74 ^a
Egypt Enhancing Access to Finance for SMEs	US\$ VSL at 6 month LIBOR plus variable spread	LIBOR + 0.28 = 0.74 ^a
India Financing PPP in Infrastructure through support to India Infrastructure Finance Company Limited	US\$ VSL at 6 month LIBOR plus variable spread	LIBOR + 0.28 - 0.20 = 0.54 ^b
India SME Finance and Development AF	US\$ VSL at 6 month LIBOR plus variable spread	LIBOR + 0.28 - 0.20 = 0.54 ^b
India Microfinance Scaling up Sustainable and Responsible Microfinance	For this loan there was both IDA and Bank financing	Bank LIBOR + 0.28 = 0.74; ^a IDA = 0.75% on disbursed balances
Bangladesh Investment Promotion and Financing Facility Project AF	IDA Credit	Service charge of 0.75 percent on disbursed balances
China Energy Efficiency Financing II Project	US\$ VSL at 6-month LIBOR plus a variable spread	LIBOR + 0.28 = 0.74 ^a
Nicaragua Second Agricultural Technology Project AF	IDA grant	
Tanzania Housing Finance Project	IDA Credit. A service fee of 0.75 percent will be charged on the disbursed balance outstanding. The maximum Commitment Charge Rate payable by the Recipient on the unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1 %) per annum.	Service charge of 0.75 percent on disbursed balances

Sources: Bank rates from the World Bank Treasury website; Central Bank Rates from Central bank websites; commercial lending rates from CIA World Fact Book; Country Risk Classification from OECD.

Note: VSL = variable spread loan; LIBOR = 0.45656 1/15/2011; FSL = fixed spread loan; EURIBOR = 1.224 1/3/2011. n. a. = not available.

a. Approved after November, 30, 2009.

b. Approved before November 30, 2009. Loans for which Invitation to Negotiate was issued prior to July 23, 2009 and which had been approved by November 30, 2009, the lending rate will be 0.20% lower based on a contractual spread of \$0.30.

	Maturity and grace period (years)	Central bank discount rates (12/2010–3/2011) (%)	Comm. Lending rates (12/2009–3/2011) (%)	Country risk classification (3/2011) (%)
	26.5 and 5	8.50	18.8	6
	25 and 10	?	7.93	7
	28.5 and 7	9.0	11.55	5
	20 and 10	8.0	20.54	7
	40 and 10	8.0	20.54	7
	14 and 5	14.0	n.a.	4
	14 and 5	14.0	n.a.	4
	Kalkinma 25 and 10; Ziraat 25 and 10 Vakif 29.5 and 6	14.0	n.a.	4
	28.5 and 7	8.25	11.98	4
	28 and 7.5	6.0	12.19	3
	15 and 5	6.0	12.19	3
	IDA 35; Bank 25	6.0	12.19	3
	40 and 10	5.0	10.35	6
	Bullet payment 12/15/2027	2.25	5.81	2
			11.15–16.4	7
	40 and 10	7.58	15.03	6

APPENDIX D

IFC and MIGA Projects

1. The Sample IFC Financial Sector Investment Projects Reviewed

TABLE D.1 IFC Transactions						
Investment number	Investment name	Equity	Loan	Guarantee	Client risk management	Project type
East Asia and Pacific						
26934	PEEP - BPI	0	0	21,299,255	0	Guarantee
28038	BTPN Convertible	0	70,000,000	0	0	Loan
26443	IIFF	40,000,000	0	0	0	Equity transfer
29100	BOS RI III	38,586,595	0	0	0	Equity transfer
29038	BRCB RI	37,084,902	0	0	0	Equity transfer
28135	DYCCB	31,555,510	0	0	0	Equity transfer
28062	AEP	25,000,000	0	0	0	Equity transfer
29311	CRAGF	25,000,000	0	0	0	Equity transfer
Europe and Central Asia						
28071	BCC Equity	100,000,000	85,000,000	0	0	Mix
28633	CI RREEF-Agri	0	30,207,128	0	0	Loan
26893	MRIF	100,000,000	0	0	0	Equity transfer
29451	CBM A + B Loan	0	40,000,000	0	0	Loan
27095	ATF Bank	0	60,000,000	0	0	Loan
26672	BCC DPR/SME	0	45,000,000	0	0	Loan
26496	SwedBank Ukraine	0	40,000,000	0	0	Loan
29742	BoG Swap II	0	0	0	5,000,000	Risk management
Latin America and the Caribbean						
28213	Banorte EQ	217,700,000	0	0	0	Equity transfer
28240	Bancamia II	13,468,070	0	0	0	Equity transfer
27805	Daycoval III	712	41,946,309	0	0	Mix
27373	Patagonia CL	0	30,000,000	0	0	Loan
28787	BBVA Paraguay CL	0	30,000,000	0	0	Loan
28626	Bic Banco H and E	0	25,000,000	0	0	Loan
29443	Daycoval Mobiliz	0	25,000,000	0	0	Loan
26880	QBEDIR	19,000,000	0	0	0	Equity transfer
28108	WCAPH EQ	15,536,024	0	0	0	Equity transfer
26918	Enfoca	15,000,000	0	0	0	Equity transfer
Middle East, North Africa, and Southern Europe						
26092	BoA	196,672,025	0	0	0	Equity transfer
27808	ByblosEquity	99,999,999	0	0	0	Equity transfer
28739	Akbank SME Loan	0	75,000,000	0	0	Loan
28100	BCR Agribusiness	0	70,615,000	0	0	Loan
28708	BT Health	0	61,563,000	0	0	Loan
29117	YKL Health, EE/RE	0	45,000,000	0	0	Loan
27632	MENA JI Fund	25,000,000	0	0	0	Equity transfer

(Table continues on the following page.)

TABLE D.1 IFC Transactions (continued)						
Investment number	Investment name	Equity	Loan	Guarantee	Client risk management	Project type
South Asia						
26334	Macq-SBI Int F	148,988,750	0	0	0	Equity transfer
27738	IDFC CC Loan	0	75,000,000	0	0	Loan
28851	Chola DBS	22,286,733	0	0	0	Equity transfer
27524	Avigo Fund III	20,000,000	0	0	0	Equity transfer
28780	Ventures Bangla	12,000,000	0	0	0	Equity transfer
Sub-Saharan Africa						
28061	SABIF-Absa	0	120,000,000	0	0	Loan
27662	Macquarie Africa	100,000,000	0	0	0	Equity transfer
28220	FBN Nigeria	0	87,500,000	0	0	Loan
27876	Helios Fund II	60,000,000	0	0	0	Equity transfer
27525	CAPE III	30,000,000	0	0	0	Equity transfer
29163	BCI Fomento II	0	30,000,000	0	0	Loan
28361	ZANACO	0	25,000,000	0	0	Loan
28939	ECP Africa III	25,000,000	0	0	0	Equity transfer
26914	ADP I	20,275,200	0	0	0	Equity transfer
26680	IDA IFC EBMali	0	0	5,905,886	0	Guarantee
World						
28049	EMSF	25,000,000	0	0	0	Equity transfer
28620	LeapFrog Fund	20,000,000	0	0	0	Equity transfer

Note: Because of lack of project approval documents, five originally selected projects (PIDs 29346, 27910, 23957, 29220, and 29836) were dropped and replaced with five other projects (PIDs 28240, 28633, 29117, 29451 and 26934) next in respective project lists ranked top-down by commitment amount.

TABLE D.2 List of Recap Fund Transactions Reviewed		
Transaction name	Country/region	Number
CF BSP Debt and Equity	Papua New Guinea	28852
CF ETI	Africa Region	29145
CF KBB Convert	Serbia	27803
CF Banco de Oro Unibank	Philippines	29330
Banco Continental	Paraguay	27828
CF Vietinbank	Vietnam	28509

TABLE D.3 List of IFC Transactions Reviewed		
Transaction name	Country/region	Number
Cai Mep-Sub Loan	Vietnam	27640
Calidda Peru	Peru	28031

TABLE D.4 List of DARP Transactions Reviewed		
Transaction name	Country/region	Number
Asia Debt Management	Central and Eastern Europe, Central Asia, and Turkey	28746
Aluar	Argentina	23805
Avtokran	Russia	27465
Bancolombia	Colombia	28892
Covinoc Equity	Colombia	27745
CRG Capital	Eastern Europe	27196
DARP Southern Financial Partners AMC	Latin America	25223
DARP Standard Bank NPL Facility		28691
Emerging Europe Special Situations Fund	Commonwealth of Independent Countries	28863
EOS	Eastern Europe	28805
HSBC Emerging Markets Recovery Fund	World	28315
Tata Capital Services—India Collections Management, Ltd.	India	28136
Varde	Eastern Europe, including Russia, Ukraine, Poland, Hungary, and Romania	28776

Note: AMC = Asset Management Company; DARP = Debt and Asset Recovery Program; NPL = nonperforming loan.

TABLE D.5 List of Advisory Services Projects Reviewed		
Project name	Country/region	Number
Banking Market Development	Armenia	549975
Financial Management Crisis	Russia	575387
Financial Management Crisis Management Program	Georgia	573587
Financial Management Crisis Management Project	Azerbaijan	571127
Financial Management Crisis Management Program	Eastern Europe	571707
Crisis Management Project	Ukraine	572167

2. MIGA Projects

TABLE D.6 MIGA's Crisis Guarantee Projects, FY09–11			
Host country	Gross exposure (\$ millions)	Reinsurance (\$ millions)	Risk coverage
FY09–10			
Bosnia and Herzegovina	47.7	0.0	TR, EXP
Russian Federation	90.2	52.8	TR, EXP, WCD
Ukraine	142.5	128.1	TR, EXP
Ukraine	247.0	222.0	TR, EXP
Moldova	6.2	0.0	TR, EXP, WCD
Russian Federation	120.0	30.0	TR, EXP, WCD
Kazakhstan	190.0	140.0	TR, EXP, WCD
Hungary	133.8	0.0	TR, EXP, WCD
Latvia	100.3	0.0	TR, EXP
Serbia and Montenegro	134.2	81.3	TR, EXP, WCD
Serbia	40.1	0.0	TR, EXP
Croatia	278.6	120.4	TR, EXP, WCD
Serbia	13.8	0.0	TR, EXP, WCD
Latvia	68.4	0.0	TR, EXP, WCD
Croatia	326.7	196.6	TR, EXP, WCD
Kazakhstan	190.0	110.0	EXP
FY11			
Hungary	259.4	59.5	EXP

Source: MIGA.
Note: TR = transfer risk; EXP = expropriation; WCD = war and civil disturbance.

3. Crisis-Related MIGA Guarantee Projects— A Summary

In response to the crisis, MIGA underwrote 17 guarantee projects (“the crisis guarantees”) in nine host countries: Bosnia, Croatia, Hungary, Kazakhstan, Latvia, Moldova, Russia, Serbia and Montenegro, and Ukraine. The risks covered were in nearly all cases transfer risk and expropriation and, in some instances, war and civil disturbance also.¹

MIGA’s crisis guarantees were intended to provide support for additional capital injections into banks in the Europe and Central Asia Region. In all 17 guarantee projects, the underlying project enterprise, i.e. the subsidiary financial institution, received a shareholder loan from the parent bank so as to recapitalize the subsidiary, and that loan received a MIGA guarantee. In a number of host countries, including Hungary, Latvia, and Ukraine, the banking system had intermediated a rapid expansion of credit, including significant

foreign currency exposures. When the crisis hit, there was a sharp rise in the level of nonperforming loans. Uncertainty about the solvency of banks in general led to liquidity problems, with the drying up of local interbank funding (or its severe restriction to short-term maturities).

In this environment, MIGA’s guarantees enabled parent banks to add extra capital to subsidiaries while limiting their country (sovereign political risk) exposure.² A review of the 17 crisis projects, plus a detailed examination of four project enterprises (which does not claim to be statistically significant) indicates that the output, consisting of extra capital by parent banks, produced a number of beneficial outcomes. In all cases, the MIGA guarantees played a role on a small scale in contributing to the outcomes: it would be an unwarranted over-estimation to attribute outcomes solely to MIGA interventions.

In anticipation of the added capital, parents provided liquidity lines to subsidiaries. The liquidity lines provided an es-

cape from liquidity problems. Subsidiary banks then were perceived to be stable deposit-taking institutions capable of accommodating a flight of capital from the local currency to the US dollar or the euro (as occurred in some of the Europe and Central Asia host countries). A particular value of MIGA guarantees was their long-term tenor (maturity of coverage), because subsidiaries were often seeking a long-term component to financing that could not be obtained in local financial markets. Additionally, guarantees against transfer risk (in particular) were both needed and valued, because of the risks of currency devaluations. The risks at the time are illustrated by, for example, the major devaluation that took place in the Ukraine, and the loss of about one-third of foreign exchange reserves (while defending its currency) in Moldova. In a few cases, the subsidiaries were proactive in restructuring troubled assets, reflecting the financial know-how of the parent banks.

In this way, MIGA's cross-border support to foreign banks in countries threatened by banking crisis and currency devaluation helped to meet a number of crisis needs: liquidity provision; recapitalization; workout of troubled assets; financial stability; a stable foreign-currency depository institution in some highly dollarized economies; and—not least—in Latvia and Ukraine, a reduction in the fiscal costs of banking collapse. The foregoing considerations reinforce the conclusion reached above that MIGA's crisis response was strong in strategic relevance.

MIGA also contributed to private sector development and did so in an economically sustainable manner, as assessed within the framework of real-time evaluation to date. Banking systems in the nine host countries have stabilized, and the level (volume) of nonperforming loans has bottomed out, for example around mid-2010 in some of the most severely affected countries. Banks' balance sheets have stopped contracting and banks have returned to positive profits and positive net lending. In respect of sustainability of the financial system and the economy, therefore, the preliminary assessment is favorable.

Furthermore, foreign bank subsidiaries benefiting from MIGA guarantees have contributed to private sector development in a number of ways, including helping to promote

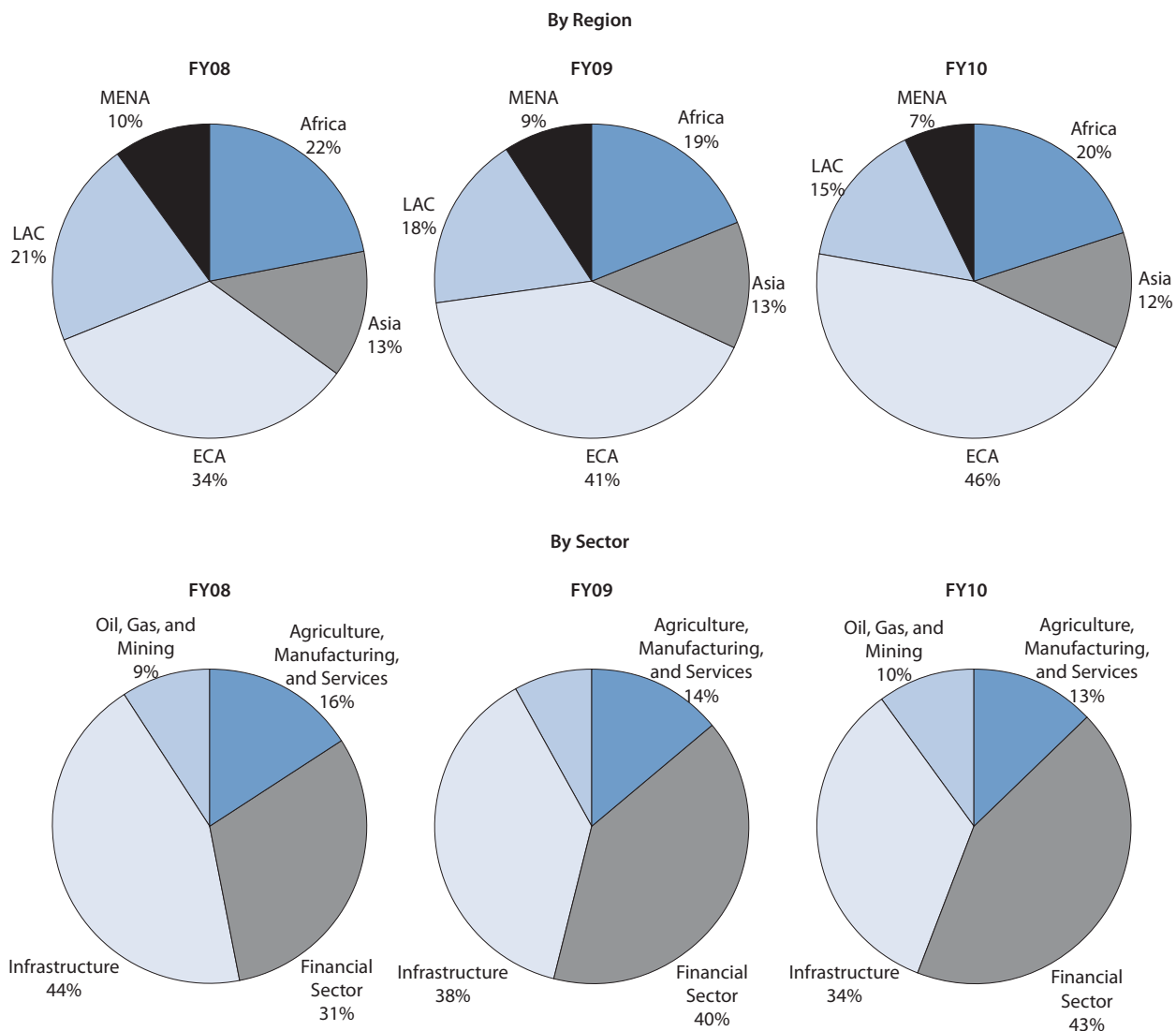
transparency of bank ownership, risk management practices, and information technology systems. The objective of funding small and medium enterprises (SMEs) was part of the broader objectives of the FSI (as noted above). This objective has been harder to attain, however, judging from the findings for four guarantee projects. A case in point is Moldova, an IDA country, which suffered from a sudden drop-off in foreign direct investment during the crisis and benefited from a small cross-border investment, guaranteed by MIGA, in a financial sector enterprise. During the crisis, the enterprise concerned extended little credit to SMEs. These findings are in accord with preliminary indications throughout the Europe and Central Asia Region that SMEs were afforded little financial access during the crisis. At a time of heightened uncertainty, banks tend to penalize smaller firms even more than usual. It remains to be seen how SMEs will fare post-crisis.³

MIGA's crisis response was concentrated 100 percent on one sector, the financial sector, and one region, the Europe and Central Asia region. The overall portfolio already had significant concentrations in that sector and region at the inception of the FSI. The issue arises, therefore, as to whether the additional exposures were imprudent.

Year-by-year concentrations are only a prudential concern to the extent that they affect the overall portfolio concentrations, taking account of reinsurance and cancellations. Consequently, it is MIGA's *net* portfolio that is relevant to risk exposures (figure D.1).

The concentrations by sector and by region were increased (toward the financial sector and Europe and Central Asia) by the crisis response. There is no clear dividing line between reasonable risk bearing and imprudent risk bearing, however. A recent IEG report (IEG 2011) has noted that "MIGA's exposure was well within its own country and project limits, even during the crisis, and exposures were reinsured even though limits were not close."⁴ A second pertinent factor is that throughout the crisis period under review, MIGA's economic-to-operating capital ratio remained low, standing at 31 percent at the end of FY10. These considerations indicate that the portfolio concentrations arising from MIGA's crisis guarantees cannot be considered to be imprudent.

FIGURE D.1 MIGA's Outstanding Portfolio FY08-FY10: Composition by Sector and Region



Source: MIGA.

Note: Net exposure. **Regions:** ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa.

Supplemental Tables and Methodology

1. Tables

TABLE E.1 Annual Macroeconomic and Fiscal Data for Select Sample Countries						
Country / Indicator	2005	2006	2007	2008	2009	2010
Albania						
GDP Growth (annual growth rate) ¹	5.8	5.4	5.9	7.7	3.3	
Current Account Balance (as % of GDP) ¹	-6.1	-5.6	-10.4	-15.2	-14.0	
Portfolio Investment (BoP, current US\$) ²	-5,664,561	34,157,088	25,810,000	-54,470,582	17,724,460	
Foreign Direct Investment (US\$ millions) ³	264	325	662	988	979	
Remittances (US\$ millions) ⁴	1,290	1,359	1,468	1,495	1,317	1,285
Fiscal Deficit (as % of GDP) ¹	-3.5	-3.3	-3.6	-5.1	-7.4	
Public Debt (as % of GDP)	58.2	56.7	53.8	55.2	59.5	
Armenia						
GDP Growth (annual growth rate)	13.9	13.2	13.7	6.9	-14.2	
Current Account Balance (as % of GDP)	-1.1	-1.8	-6.4	-11.8	-16.0	
Portfolio Investment (BoP, current US\$)	-1,590,146	9,221,125	-9,224,023	8,333,654	-3,862,841	
Foreign Direct Investment (US\$ millions)	239	453	661	1,132	838	
Remittances (US\$ millions)	498	658	846	1,062	769	824
Fiscal Deficit (as % of GDP)	-2.1	-2.0	-2.3	-1.8	-7.8	
Public Debt (as % of GDP)	24.4	18.7	16.1	16.2	40.6	
Bosnia and Herzegovina						
GDP Growth (annual growth rate)	4.0	6.1	6.1	5.7	-3.1	
Current Account Balance (as % of GDP)	-17.2	-8.0	-10.7	-14.5	-6.9	
Portfolio Investment (BoP, current US\$)	2,566,376	-388,430	-812,301	-8,785,161	-26,927,036	
Foreign Direct Investment (US\$ millions)	613	766	2,077	1,064	501	
Remittances (US\$ millions)	2,043	2,157	2,700	2,735	2,167	2,228
Fiscal Deficit (as % of GDP)	0.6	1.1	-0.3	-3.9	-5.8	
Public Debt (as % of GDP)	25.3	21.8	32.9	30.8	35.4	
Brazil						
GDP Growth (annual growth rate)	3.2	4.0	6.1	5.1	-0.2	
Current Account Balance (as % of GDP)	1.6	1.2	0.1	-1.7	-1.5	
Portfolio Investment (BoP, current US\$)	4,884,536,334	9,573,235,678	48,390,357,301	1,133,124,949	50,283,048,500	
Foreign Direct Investment (US\$ millions)	15,066	18,822	34,585	45,058	25,949	
Remittances (US\$ millions)	3,540	4,253	4,382	5,089	4,234	4,277
Fiscal Deficit (as % of GDP)	-3.4	-3.5	-2.6	-1.3	-3.2	
Public Debt (as % of GDP)	69.2	66.7	65.2	64.1	68.9	

(Table continues on the following page.)

TABLE E.1 Annual Macroeconomic and Fiscal Data for Select Sample Countries (continued)

Country / Indicator	2005	2006	2007	2008	2009	2010
Bulgaria						
GDP Growth (annual growth rate)	6.2	6.3	6.2	6.0	-5.0	
Current Account Balance (as % of GDP)	-12.4	-18.4	-26.9	-24.2	-9.5	
Portfolio Investment (BoP, current US\$)	-1,304,132,498	363,441,387	-836,524,083	-1,080,300,936	-753,816,587	
Foreign Direct Investment (US\$ millions)	3,916	7,804	12,388	9,795	4,467	
Remittances (US\$ millions)	1,613	1,716	1,694	1,874	1,558	1,602
Fiscal Deficit (as % of GDP)	2.4	3.5	3.5	3.0	-0.9	
Public Debt (as % of GDP)	31.3	24.6	19.8	16.1	16.1	
Colombia						
GDP Growth (annual growth rate)	5.0	7.1	6.3	2.7	0.8	
Current Account Balance (as % of GDP)	-1.3	-1.9	-2.8	-2.9	-2.2	
Portfolio Investment (BoP, current US\$)	-1,741,721,422	-2,430,769,118	890,596,710	-1,006,962,271	1,866,511,579	
Foreign Direct Investment (US\$ millions)	10,252	6,656	9,049	10,583	7,201	
Remittances (US\$ millions)	3,346	3,928	4,523	4,884	4,180	3,942
Fiscal Deficit (as % of GDP)	-0.2	-0.8	-1.0	0.1	-2.5	
Public Debt (as % of GDP)	38.3	35.7	32.5	32.3	35.2	
Costa Rica						
GDP Growth (annual growth rate)	5.9	8.8	7.9	2.8	-1.1	
Current Account Balance (as % of GDP)	-4.9	-4.5	-6.3	-9.2	-1.8	
Portfolio Investment (BoP, current US\$)	-344,514,693	-493,149,013	-392,525	401,646,426	-286,076,266	
Foreign Direct Investment (US\$ millions)	861	1,469	1,896	2,021	1,323	
Remittances (US\$ millions)	420	513	618	605	574	622
Fiscal Deficit (as % of GDP)	-1.2	0.5	1.9	0.7	-3.2	
Public Debt (as % of GDP)	40.4	36.0	29.6	26.0	28.0	
Croatia						
GDP Growth (annual growth rate)	4.2	4.7	5.5	2.4	-5.8	
Current Account Balance (as % of GDP)	-5.5	-6.9	-7.6	-9.2	-5.3	
Portfolio Investment (BoP, current US\$)	-1,497,593,470	-643,522,836	21,760,800	-824,254,773	339,419,448	
Foreign Direct Investment (US\$ millions)	1,825	3,468	5,023	6,140	2,605	
Remittances (US\$ millions)	1,222	1,234	1,394	1,602	1,476	1,545
Fiscal Deficit (as % of GDP)	-2.8	-1.8	-1.2	-0.9	-3.2	
Public Debt (as % of GDP)	38.4	35.8	33.2	29.3	35.4	
Egypt, Arab Rep. of						
GDP Growth (annual growth rate)	4.5	6.8	7.1	7.2	4.7	
Current Account Balance (as % of GDP)	3.2	1.6	1.9	0.5	-2.4	
Portfolio Investment (BoP, current US\$)	3,468,200,000	-700,400,000	-3,573,900,000	-7,649,700,000	-527,100,000	
Foreign Direct Investment (US\$ millions)	5,376	10,043	11,578	9,495	6,712	
Remittances (US\$ millions)	5,017	5,330	7,656	8,694	7,150	7,681
Fiscal Deficit (as % of GDP)	-8.4	-9.2	-7.5	-7.8	-7.0	
Public Debt (as % of GDP)	112.8	98.8	87.1	76.6	76.2	

TABLE E.1 Annual Macroeconomic and Fiscal Data for Select Sample Countries (continued)

Country / Indicator	2005	2006	2007	2008	2009	2010
El Salvador						
GDP Growth (annual growth rate)	3.3	4.2	4.3	2.4	-3.5	
Current Account Balance (as % of GDP)	-3.5	-4.2	-6.0	-7.6	-1.8	
Portfolio Investment (BoP, current US\$)	104,500,000	777,390,000	-196,430,000	137,600,000	781,360,000	
Foreign Direct Investment (US\$ millions)	511	241	1,509	784	431	
Remittances (US\$ millions)	3,030	3,485	3,712	3,804	3,531	3,648
Fiscal Deficit (as % of GDP)	-3.0	-2.6	-1.9	-2.6	-5.6	
Public Debt (as % of GDP)	39.4	39.4	38.8	39.7	48.5	
Georgia						
GDP Growth (annual growth rate)	9.6	9.4	12.3	2.3	-3.9	
Current Account Balance (as % of GDP)	-11.1	-15.1	-19.7	-22.7	-11.7	
Portfolio Investment (BoP, current US\$)	15,473,629	140,320,085	20,971,947	626,590,884	12,067,508	
Foreign Direct Investment (US\$ millions)	453	1,170	1,750	1,564	764	
Remittances (US\$ millions)	346	485	695	732	714	824
Fiscal Deficit (as % of GDP)	2.2	3.4	0.8	-2.0	-6.6	
Public Debt (as % of GDP)	34.1	27.3	21.5	27.6	37.4	
Ghana						
GDP Growth (annual growth rate)	5.9	6.4	5.7	7.2	4.1	
Current Account Balance (as % of GDP)	-8.3	-9.9	-12.0	-18.8	-5.2	
Portfolio Investment (BoP, current US\$)		65,790,000	1,039,330,000	-49,010,000	-43,640,000	
Foreign Direct Investment (US\$ millions)	145	636	855	1,220	1,685	
Remittances (US\$ millions)	99	105	117	126	114	119
Fiscal Deficit (as % of GDP)	-4.6	-7.5	-9.2	-14.7	-9.8	
Public Debt (as % of GDP)	77.9	42.0	51.9	59.2	66.5	
Grenada						
GDP Growth (annual growth rate)	11.0	-2.3	4.9	2.2	-7.7	
Current Account Balance (as % of GDP)	-31.3	-33.2	-43.2	-38.7	-25.7	
Portfolio Investment (BoP, current US\$)	17,799,928	-749,861	-1,029,725	-4,566,872	-2,331,359	
Foreign Direct Investment (US\$ millions)	70	90	152	144	79	
Remittances (US\$ millions)	52	54	55	55	54	59
Fiscal Deficit (as % of GDP)	0.5	-6.1	-7.9	-5.1	-6.6	
Public Debt (as % of GDP)	110.3	116.5	111.0	102.2	122.3	
Guatemala						
GDP Growth (annual growth rate)	3.3	5.4	6.3	3.3	0.5	
Current Account Balance (as % of GDP)	-4.6	-5.0	-5.2	-4.5	-0.6	
Portfolio Investment (BoP, current US\$)	-76,800,000	-83,400,000	-184,900,000	-32,900,000	7,900,000	
Foreign Direct Investment (US\$ millions)	508	592	745	754	566	
Remittances (US\$ millions)	3,067	3,700	4,236	4,460	4,026	4,255
Fiscal Deficit (as % of GDP)	-1.7	-1.9	-1.4	-1.6	-3.1	
Public Debt (as % of GDP)	21.5	21.7	21.3	19.9	23.0	

(Table continues on the following page.)

TABLE E.1 Annual Macroeconomic and Fiscal Data for Select Sample Countries (continued)

Country / Indicator	2005	2006	2007	2008	2009	2010
Hungary						
GDP Growth (annual growth rate)	3.5	4.0	1.0	0.6	-6.3	
Current Account Balance (as % of GDP)	-7.2	-7.1	-6.5	-7.1	0.2	
Portfolio Investment (BoP, current US\$)	4,500,961,780	6,324,208,241	-2,342,978,394	-2,944,774,542	-4,763,441,969	
Foreign Direct Investment (US\$ millions)	7,709	19,802	71,485	61,993	-5,575	
Remittances (US\$ millions)	1,931	2,079	2,280	2,520	2,277	2,514
Fiscal Deficit (as % of GDP)	-7.9	-9.4	-5.0	-3.7	-4.1	
Public Debt (as % of GDP)	61.8	65.6	65.8	72.9	78.3	
India						
GDP Growth (annual growth rate)	9.2	9.7	9.9	6.4	5.7	
Current Account Balance (as % of GDP)	-1.3	-1.0	-0.7	-2.0	-2.9	
Portfolio Investment (BoP, current US\$)	12,144,114,068	9,545,718,947	33,016,300,605	-15,073,970,044	20,937,819,125	
Foreign Direct Investment (US\$ millions)	7,622	20,328	25,001	40,418	34,613	
Remittances (US\$ millions)	22,125	28,334	37,217	49,941	49,256	55,000
Fiscal Deficit (as % of GDP)	-6.4	-5.3	-4.0	-7.4	-9.6	
Public Debt (as % of GDP)	79.3	76.0	72.9	72.6	74.2	
Indonesia						
GDP Growth (annual growth rate)	5.7	5.5	6.3	6.0	4.5	
Current Account Balance (as % of GDP)	0.1	3.0	2.4	0.0	2.0	
Portfolio Investment (BoP, current US\$)	4,189,585,521	4,276,626,526	5,566,080,000	1,764,251,470	10,336,230,327	
Foreign Direct Investment (US\$ millions)	8,336	4,914	6,928	9,318	4,877	
Remittances (US\$ millions)	5,420	5,722	6,174	6,794	6,793	7,139
Fiscal Deficit (as % of GDP)	0.6	0.2	-1.2	0.0	-1.6	
Public Debt (as % of GDP)	46.3	40.4	36.9	33.2	28.6	
Jamaica						
GDP Growth (annual growth rate)	1.1	3.0	1.4	-0.9	-3.0	
Current Account Balance (as % of GDP)	-9.5	-10.0	-16.5	-18.3	-10.5	
Portfolio Investment (BoP, current US\$)	-126,000,000	-128,520,000	-640,440,000	-32,760,000	-358,170,231	
Foreign Direct Investment (US\$ millions)	682	882	867	1,437	1,062	
Remittances (US\$ millions)	1,784	1,946	2,144	2,180	1,924	2,020
Fiscal Deficit (as % of GDP)	-3.5	-4.4	-3.9	-6.4	-9.9	
Public Debt (as % of GDP)	116.9	114.2	111.5	120.0	134.0	
Jordan						
GDP Growth (annual growth rate)	8.1	7.9	8.5	7.6	2.3	
Current Account Balance (as % of GDP)	-18.0	-11.0	-16.9	-9.6	-5.0	
Portfolio Investment (BoP, current US\$)	312,693,935	-36,812,412	840,338,657	572,787,008	-629,577,465	
Foreign Direct Investment (US\$ millions)	1,984	3,544	2,622	2,829	2,385	
Remittances (US\$ millions)	2,500	2,883	3,434	3,794	3,597	3,789
Fiscal Deficit (as % of GDP)	-5.6	-3.9	-4.5	-4.1	-8.1	
Public Debt (as % of GDP)	84.3	73.5	71.0	58.1	61.4	

TABLE E.1 Annual Macroeconomic and Fiscal Data for Select Sample Countries (continued)

Country / Indicator	2005	2006	2007	2008	2009	2010
Latvia						
GDP Growth (annual growth rate)	10.6	12.2	10.0	-4.2	-18.0	
Current Account Balance (as % of GDP)	-12.5	-22.5	-22.3	-13.1	8.6	
Portfolio Investment (BoP, current US\$)	-138,300,000	48,200,000	-659,100,000	372,800,000	172,400,000	
Foreign Direct Investment (US\$ millions)	707	1,663	2,322	1,261	72	
Remittances (US\$ millions)	381	482	552	601	599	643
Fiscal Deficit (as % of GDP)	-1.3	-0.5	0.6	-7.5	-7.8	
Public Debt (as % of GDP)	11.8	9.9	7.8	17.1	32.8	
Mexico						
GDP Growth (annual growth rate)	3.2	4.9	3.3	1.5	-6.5	
Current Account Balance (as % of GDP)	-0.5	-0.5	-0.8	-1.5	-0.6	
Portfolio Investment (BoP, current US\$)	4,477,500,000	-5,872,300,000	8,617,000,000	-413,400,000	9,077,500,000	
Foreign Direct Investment (US\$ millions)	22,351	19,946	27,440	23,683	12,522	
Remittances (US\$ millions)	23,062	26,877	27,136	26,304	22,153	22,572
Fiscal Deficit (as % of GDP)	-1.4	-1.0	-1.3	-1.4	-4.9	
Public Debt (as % of GDP)	39.8	38.3	38.2	43.3	44.9	
Moldova						
GDP Growth (annual growth rate)	7.5	4.8	3.0	7.8	-6.5	
Current Account Balance (as % of GDP)	-7.6	-11.4	-15.3	-16.3	-8.1	
Portfolio Investment (BoP, current US\$)	-6,950,000	-4,790,000	-4,510,000	6,380,000	-5,820,000	
Foreign Direct Investment (US\$ millions)	191	233	539	708	86	
Remittances (US\$ millions)	920	1,182	1,498	1,897	1,211	1,316
Fiscal Deficit (as % of GDP)	1.5	0.0	-0.2	-1.0	-6.4	
Public Debt (as % of GDP)	36.4	33.7	26.9	21.3	27.6	
Mongolia						
GDP Growth (annual growth rate)	7.3	8.6	10.2	8.9	-1.6	
Current Account Balance (as % of GDP)	1.3	7.0	6.7	-14.0	-9.8	
Portfolio Investment (BoP, current US\$)			74,870,200	-36,007,269	-82,119,010	
Foreign Direct Investment (US\$ millions)	185	191	360	683	437	
Remittances (US\$ millions)	180	181	194	200	194	211
Fiscal Deficit (as % of GDP)	2.6	8.2	2.8	-4.9	-5.4	
Public Debt (as % of GDP)						
Morocco						
GDP Growth (annual growth rate)	3.0	7.8	2.7	5.6	4.9	
Current Account Balance (as % of GDP)	1.8	2.2	-0.1	-5.2	-5.0	
Portfolio Investment (BoP, current US\$)	59,848,787	-294,894,910	-80,170,705	-109,122,444	-16,595,536	
Foreign Direct Investment (US\$ millions)	1,653	2,450	2,803	2,487	1,331	
Remittances (US\$ millions)	4,590	5,451	6,730	6,895	6,271	6,447
Fiscal Deficit (as % of GDP)	-4.2	-1.0	1.5	1.2	-2.6	
Public Debt (as % of GDP)	64.6	59.4	54.6	48.2	47.7	

(Table continues on the following page.)

TABLE E.1 Annual Macroeconomic and Fiscal Data for Select Sample Countries (continued)

Country / Indicator	2005	2006	2007	2008	2009	2010
Nigeria						
GDP Growth (annual growth rate)	5.4	6.2	7.0	6.0	7.0	
Current Account Balance (as % of GDP)	6.6	26.5	18.7	15.7	14.1	
Portfolio Investment (BoP, current US\$)	-487,949,759	1,288,045,084	799,539,061	-3,402,860,035	-187,790,463	
Foreign Direct Investment (US\$ millions)	4,978	13,956	6,087	6,814	5,851	
Remittances (US\$ millions)	3,329	5,435	9,221	9,980	9,585	9,975
Fiscal Deficit (as % of GDP)	9.3	7.0	-1.3	3.5	-10.3	
Public Debt (as % of GDP)	28.6	11.8	12.8	11.6	15.5	
Pakistan						
GDP Growth (annual growth rate)	7.7	6.1	5.6	1.6	3.4	
Current Account Balance (as % of GDP)	-1.4	-3.9	-4.8	-8.5	-5.7	
Portfolio Investment (BoP, current US\$)	770,000,000	1,969,000,000	2,086,000,000	-269,000,000	-607,000,000	
Foreign Direct Investment (US\$ millions)	2,201	4,273	5,590	5,438	2,387	
Remittances (US\$ millions)	4,280	5,121	5,998	7,039	8,720	9,407
Fiscal Deficit (as % of GDP)	-4.2	-4.8	-5.5	-7.3	-4.9	
Public Debt (as % of GDP)	62.0	56.4	54.6	58.7	57.3	
Peru						
GDP Growth (annual growth rate)	6.8	7.7	8.9	9.8	0.9	
Current Account Balance (as % of GDP)	1.4	3.1	1.3	-3.7	0.2	
Portfolio Investment (BoP, current US\$)	1,761,704,915	-1,611,604,203	3,639,253,313	460,526,086	-2,343,795,646	
Foreign Direct Investment (US\$ millions)	2,579	3,467	5,491	6,924	4,760	
Remittances (US\$ millions)	1,440	1,837	2,131	2,444	2,378	2,494
Fiscal Deficit (as % of GDP)	-0.5	1.9	3.2	2.2	-2.1	
Public Debt (as % of GDP)		33.2	30.9	25.7	27.4	
Philippines						
GDP Growth (annual growth rate)	5.0	5.3	7.1	3.7	1.1	
Current Account Balance (as % of GDP)	2.0	4.5	4.9	2.2	5.3	
Portfolio Investment (BoP, current US\$)	3,476,000,000	3,043,000,000	4,623,000,000	-3,798,000,000	1,449,000,000	
Foreign Direct Investment (US\$ millions)	1,854	2,921	2,916	1,544	1,948	
Remittances (US\$ millions)	13,566	15,251	16,302	18,642	19,766	21,311
Fiscal Deficit (as % of GDP)	-3.0	-1.4	-1.5	-1.3	-3.9	
Public Debt (as % of GDP)	62.8	55.4	47.8	48.7	48.9	
Poland						
GDP Growth (annual growth rate)	3.6	6.2	6.8	5.0	1.7	
Current Account Balance (as % of GDP)	-1.2	-2.7	-4.8	-5.1	-1.7	
Portfolio Investment (BoP, current US\$)	12,600,000,000	-3,122,000,000	-5,415,000,000	-2,082,000,000	15,869,000,000	
Foreign Direct Investment (US\$ millions)	10,293	19,603	23,561	14,689	11,395	
Remittances (US\$ millions)	6,482	8,496	10,496	10,447	8,816	9,080
Fiscal Deficit (as % of GDP)	-4.1	-3.6	-1.9	-3.7	-7.1	
Public Debt (as % of GDP)	47.1	47.7	45.0	47.1	50.9	
Romania						
GDP Growth (annual growth rate)	4.2	7.9	6.3	7.4	-7.1	
Current Account Balance (as % of GDP)	-9.8	-10.4	-13.4	-11.9	-4.5	
Portfolio Investment (BoP, current US\$)	949,300,000	-238,900,000	623,000,000	-722,000,000	781,000,000	

TABLE E.1 Annual Macroeconomic and Fiscal Data for Select Sample Countries (continued)

Country / Indicator	2005	2006	2007	2008	2009	2010
Foreign Direct Investment (US\$ millions)	6,483	11,367	9,921	13,909	6,329	
Remittances (US\$ millions)	4,733	6,718	8,542	9,381	4,928	4,517
Fiscal Deficit (as % of GDP)	-0.7	-1.4	-3.1	-4.8	-7.4	
Public Debt (as % of GDP)	20.4	18.4	19.8	21.3	29.9	
Serbia						
GDP Growth (annual growth rate)	5.4	5.2	6.9	5.5	-3.0	
Current Account Balance (as % of GDP)	-8.7	-10.2	-16.0	-17.7	-6.7	
Portfolio Investment (BoP, current US\$)			915,798,411	-135,996,046	-68,382,895	
Foreign Direct Investment (US\$ millions)				2,995	1,920	
Remittances (US\$ millions)	4,650	4,703	5,377	5,538	5,406	5,580
Fiscal Deficit (as % of GDP)	0.8	-1.6	-1.9	-2.6	-4.1	
Public Debt (as % of GDP)	56.3	43.0	35.2	33.4	35.6	
Turkey						
GDP Growth (annual growth rate)	8.4	6.9	4.7	0.7	-4.7	
Current Account Balance (as % of GDP)	-4.6	-6.1	-5.9	-5.7	-2.3	
Portfolio Investment (BoP, current US\$)	13,437,000,000	7,373,000,000	717,000,000	-5,046,000,000	196,000,000	
Foreign Direct Investment (US\$ millions)	10,010	20,223	22,023	18,148	7,611	
Remittances (US\$ millions)	887	1,146	1,248	1,476	970	950
Fiscal Deficit (as % of GDP)	0.0	0.1	-1.7	-2.4	-5.6	
Public Debt (as % of GDP)	52.3	46.1	39.4	39.5	45.5	
Ukraine						
GDP Growth (annual growth rate)	2.7	7.3	7.9	2.1	-15.1	
Current Account Balance (as % of GDP)	2.9	-1.5	-3.7	-7.1	-1.5	
Portfolio Investment (BoP, current US\$)	2,757,000,000	3,583,000,000	5,753,000,000	-1,280,000,000	-1,559,000,000	
Foreign Direct Investment (US\$ millions)	7,808	5,604	9,891	10,913	4,816	
Remittances (US\$ millions)	595	829	4,503	5,769	5,073	5,289
Fiscal Deficit (as % of GDP)	-2.3	-1.4	-2.0	-3.2	-6.2	
Public Debt (as % of GDP)	17.7	14.8	12.3	20.0	34.6	
Uruguay						
GDP Growth (annual growth rate)	6.8	4.3	7.5	8.5	2.9	
Current Account Balance (as % of GDP)	0.2	-2.0	-0.9	-4.8	0.7	
Portfolio Investment (BoP, current US\$)	805,887,612	1,686,388,670	1,150,528,098	-557,667,730	-709,955,457	
Foreign Direct Investment (US\$ millions)	847	1,493	1,329	1,840	1,139	
Remittances (US\$ millions)	77	89	96	108	101	104
Fiscal Deficit (as % of GDP)	-0.5	-0.5	0.0	-1.5	-1.7	
Public Debt (as % of GDP)	77.6	70.3	63.0	61.7	60.7	
Vietnam						
GDP Growth (annual growth rate)	8.4	8.2	8.5	6.3	5.3	
Current Account Balance (as % of GDP)	-1.1	-0.3	-9.8	-11.9	-8.0	
Portfolio Investment (BoP, current US\$)	865,000,000	1,313,000,000	6,243,000,000	-578,000,000	128,000,000	
Foreign Direct Investment (US\$ millions)	2,021	2,400	6,739	8,050	4,500	
Remittances (US\$ millions)	4,000	4,800	5,500	7,200	6,626	7,215
Fiscal Deficit (as % of GDP)	-3.7	-0.4	-1.9	-0.9	-8.9	
Public Debt (as % of GDP)	42.2	43.0	45.6	43.9	49.0	

(Table continues on the following page.)

TABLE E.1 Annual Macroeconomic and Fiscal Data for Select Sample Countries (continued)

Country / Indicator	2005	2006	2007	2008	2009	2010
Yemen, Rep. of						
GDP Growth (annual growth rate)	5.6	3.2	3.3	3.6	3.9	
Current Account Balance (as % of GDP)	3.8	1.1	-7.0	-4.7	-10.7	
Portfolio Investment (BoP, current US\$)	-14,169,861	-33,954,377	-8,476,000	-43,967,534	-13,544,997	
Foreign Direct Investment (US\$ millions)	-302	1,121	917	1,555	129	
Remittances (US\$ millions)	1,283	1,283	1,322	1,411	1,378	1,471
Fiscal Deficit (as % of GDP)	-1.8	1.2	-7.2	-4.5	-10.2	
Public Debt (as % of GDP)	43.8	40.8	40.4	36.4	51.0	

Sources:

1. IMF 2010.
2. World Development Indicators.
3. United Nations Conference on Trade and Development.
4. World Bank DECPG.

TABLE E.2 Crisis-Related DPOs with Content in Fiscal Management (FY09–10)					
Country	Project title	Commitment amount	Approval	Programmatic	Project ID
Armenia	Development Policy Operation I	60	2-Jul-09	Yes	P115626
Belarus	Development Policy Loan	200	1-Dec-09	No	P115700
Benin	PRSC VI	30	29-Apr-10	Yes	P117287
Bosnia and Herzegovina	Public Expenditure Development Policy Loan/Credit I	111	8-Apr-10	Yes	P116951
Brazil	Alagoas Fiscal and Public Sector Reform Development Policy Loan	195.45	17-Dec-09	Yes	P103770
Brazil	Fiscal Sustainability/Human Development/Competitiveness DPO	485	2-Feb-10	Yes	P117244
Burkina Faso	PRSC –VIII	100	26-Jun-09	Yes	P099033
Burkina Faso	PRSG –IX	100	23-Sep-08	Yes	P099011
Burkina Faso	PRSG –X	90	29-Jun-10	Yes	P117278
Côte d'Ivoire	Economic Governance and Recovery Grant II	150	31-Mar-09	Yes	P112368
Côte d'Ivoire	Economic Governance and Recovery Grant III	90	4-May-10	Yes	P117281
Guatemala	GT Fiscal and Institutional DPL	200	21-Oct-08	Yes	P112312
Guatemala	Second Fiscal and Institutional Development Policy Loan	350	28-Jul-09	Yes	P114373
Guinea-Bissau	Economic Governance Reform Grant (DPG 2)	6	29-Jun-10	Yes	P114937
Hungary	Hungary - Financial Sector and Macro Stability Loan (DPL)	1413.21	22-Sep-09	No	P114991
Malawi	Malawi: Poverty Reduction Support Credit 3	54	8-Jun-10	Yes	P117238
Maldives	Economic Stabilization/Recovery Program DPL	13.7	4-Mar-10	Yes	P114463
Mali	Fourth Poverty Reduction Support Credit	70.5	3-Jun-10	Yes	P117270
Mauritius	Third Development Policy Loan (DDO)	100	31-Mar-09	Yes	P112369
Mauritius	Fourth Development Policy Loan	50	12-Nov-09	Yes	P116608
Mongolia	Development Policy Credit (Financial Crisis Response Fast-Track Facility)	40	25-Jun-09	No	P115737
Panama	Competitiveness and Public Financial Management DPL 2	100	16-Dec-08	Yes	P106641
Paraguay	First Public Sector Programmatic DPL	100	5-May-09	Yes	P113457
Rwanda	Sixth Poverty Reduction Support Grant	115.8	30-Mar-10	Yes	P113241
Samoa	Samoa Economic Crisis Recovery Support Credit (Crisis Response Window Pilot Program)	20	12-May-10	No	P118636
Senegal	Public Finance Support Credit	60	29-Jun-09	Yes	P107288
Senegal	Fourth Poverty Reduction Support Credit	43	1-Jun-10	Yes	P117273
Togo	Third Economic Recovery and Governance Grant	16.3	20-May-10	Yes	P117282
Turkey	Second Competitiveness and Employment Development Policy Loan	500	16-Dec-08	Yes	P096840

(Table continues on the following page.)

TABLE E.2 Crisis-Related DPOs with Content in Fiscal Management (FY09–10) (continued)					
Country	Project title	Commitment amount	Approval	Programmatic	Project ID
Turkey	Programmatic Electricity Sector Development Policy Loan	800	11-Jun-09	Yes	P110643
Turkey	Restoring Equitable Growth And Employment DPL	1300	23-Mar-10	Yes	P112495
Central African Republic	EMGRG 2	5	30-Mar-09	Yes	P113176
Croatia	Fiscal, Financial, and Social Sector DPL	296.75	12-Jan-10	No	P117665
Dominican Republic	First Programmatic Public Finance and Social Sector DPL	150	17-Nov-09	Yes	P115145
Kazakhstan	DPL	1000	25-May-10	No	P119856
Lao PDR	PRSO 5	20	26-Aug-09	Yes	P110109
Lao PDR	PRSO 6	20	14-Jun-10	Yes	P118814
Lesotho	PRSC 2	25	30-Mar-10	Yes	P112817
Macedonia, FYR	First Programmatic Development Policy Loan	30	15-Dec-09	Yes	P116984
Pakistan	Poverty Reduction and Economic Support Operation	500	26-Mar-09	No	P113372
St. Lucia	Economic and Social Development DPL	12	8-Jun-10	No	P117016
Tajikistan	PDPG 3	20	26-Mar-09	Yes	P106963
Tajikistan	PDPG 4	25.4	23-Jun-10	Yes	P117692
Costa Rica	Public Finance and Competitiveness Development Policy Loan with Deferred Draw-Down Option	500	30-Apr-09	No	P115173
El Salvador	Sustaining Social Gains for Economic Recovery	100	24-Nov-09	No	P118036
El Salvador	Public Finance and Social Sector DPL	450	22-Jan-09	No	P114910
Georgia	First Development Policy Operation	85	2-Jul-09	Yes	P112700
Ghana	Economic Governance and Poverty Reduction Credit	300	30-Jun-09	No	P113301
Indonesia	DPL 5	750	9-Dec-08	Yes	P110191
Indonesia	DPL 6	750	24-Sep-09	Yes	P113638
Indonesia	Public Expenditure Support Facility	2000	3-Mar-09	No	p115199
Jamaica	Fiscal and Debt Sustainability DPL`	100	15-Jan-09	No	P101321
Jamaica	First Programmatic Fiscal Sustainability DPL	200	23-Feb-10	Yes	P113893
Jordan	Recovery Under Global Uncertainty DPL	300	19-Nov-09	No	P117023
Mexico	Economic Policies in Response to the Global Crisis DPL	1503.75	24-Nov-09	No	P118070
Nigeria	Financial Sector and Public Financial Management	500	28-Jul-09	No	P117088
Peru	Second Programmatic Fiscal Management and Competitiveness DPL	370	5-Aug-08	Yes	P101590

TABLE E.2 Crisis-Related DPOs with Content in Fiscal Management (FY09–10) (continued)					
Country	Project title	Commitment amount	Approval	Programmatic	Project ID
Peru	Third Programmatic Fiscal Management and Competitiveness DPL	150	12-Nov-09	Yes	P106720
Poland	Public Finance Management, Employment, and Private Sector Development Programmatic Policy Loan (DPL 1)	1250	22-Dec-08	Yes	P112765
Poland	Employment, Entrepreneurship, and Human Capital Development Program (DPL 2)	1300.24	30-Jun-09	Yes	P116125
Poland	Employment, Entrepreneurship, and Human Capital Development Policy Program (DPL-3)	1331.3	17-Jun-10	Yes	P117666
Romania	DPL I	422.99	16-Jul-09	Yes	P102018
Serbia, Republic of	Programmatic Public Expenditure DPL	100	17-Nov-09	Yes	P108759
Ukraine	Third DPL	500	22-Dec-08	Yes	P107365
Uruguay	Second Programmatic Reform Implementation Development Policy Loan	400	3-Feb-09	Yes	P106724
Vietnam	Eighth Poverty Reduction Support Operation	350	25-Jun-09	Yes	P111164
Vietnam	First Public Investment Reform DPL	500	22-Dec-09	Yes	P117723

Source: IEG DPO review.

Note: DDO = Draw Down Option; DPC = Development Policy Credit; DPL = Development Policy Loan; PRSC = Poverty Reform Support Credit; PRSO = Poverty Reduction Support Operation.

TABLE E.3 Support to PFM Reforms in a Sample of Crisis-Related DPOs	
Reform area	Sample countries
Budget preparation	Costa Rica, Georgia, Indonesia, Jordan, Mexico, Peru, Poland, Romania, Serbia, Ukraine, Vietnam ^a
Budget execution	El Salvador, Ghana, Indonesia, Jamaica, Nigeria, Peru, Poland, Serbia, Vietnam
External audit	Ghana, Serbia, Jamaica, Poland, Peru
Cash management	Ghana, Indonesia, Jamaica, Jordan, Nigeria, Peru, Poland, Serbia
Public procurement	El Salvador, Ghana, Indonesia, Nigeria, Peru, Serbia, Ukraine,
Debt management strategy and institutions	Jamaica, Poland, Serbia, Vietnam,
Tax and/or customs administration	Costa Rica, El Salvador, Georgia, Indonesia, Jamaica, Nigeria, ^b Peru, Ukraine, ^b Uruguay

Source: IEG in-depth reviews of crisis-response DPOs.

Note: PFM = public financial management.

a. Applies to the public investment program.

b. Benchmark (no prior action).

2. Methodology

(1) Selection of Crisis-Response Operations with Fiscal Management Content

Operations (DPOs and investment loans) and advisory services with a special focus on public finance reforms have been identified based on their thematic composition (as reported in the World Bank's Business Warehouse). Five thematic codes have been used as categorization criteria:

- Debt management and fiscal sustainability
- Macroeconomic management
- Public expenditure, financial management and procurement
- Tax policy and administration
- Administrative and civil service reform.

Among the DPOs approved in FY09–FY10, 106 were identified with at least 1 percent of their thematic content allocated to one of these thematic codes. Of these 106 DPOs, 7 were removed as, upon review, they did not include content (prior actions) in fiscal management, despite their classification. These 7 DPOs are identified in table E.4.

To the remaining 99 DPOs with fiscal management content was added the \$2 billion Indonesia Public Expenditure Support Facility approved in March 2009, although it was classified in Business Warehouse with no fiscal management thematic content. The fiscal management weight given to this operation has been set in proportion to the number of its prior actions relevant for fiscal management (that is, 4 of 11).

As in the other parts of this evaluation, DPOs with fiscal content, approved in FY09–FY10, have been categorized as crisis-response operations when at least one of the following criteria applies:

- The operation was initiated in response to the crisis and it was not programmed in the Country Partnership Strategy (CPS).
- Some of the development policy objectives were set with the aim of responding to the consequences of the crisis.
- The operation may have been in the CPS but the commitment amount was increased.
- The operation may have been in the CPS but its processing was accelerated

Based on these criteria, among the 100 fiscal management-focused DPOs approved in FY09–10, 67 were categorized as crisis-response DPOs.

(2) Indicators of Fiscal Stress and External Vulnerability

Fiscal stress indicator: To calculate an indicator of fiscal stress pre-crisis, two rankings of the 48 countries with fiscal management-focused DPOs were considered: (i) by the average level of fiscal deficit, in percent of GDP, in 2007–08 and (ii) by the average level of gross public debt in proportion to GDP in 2007–08. The data used are from the IMF's *World Economic Outlook*.

The 48 countries were ranked in increasing order by the fiscal deficit, and then by the public debt ratio. The average value of the two scores on these rankings was used as an indicator of overall fiscal stress. Lower (higher) values of the indicator are associated with lower (higher) levels of the fiscal deficit and public debt in proportion to GDP in 2007–08.

The indicator has to be interpreted with caution, as it does not convey a sense of the sustainability of public debt. The level of primary fiscal surplus would have been more appropriate in this respect, in comparison to the public debt

TABLE E.4 DPOs Classified as Containing Public Finance Reforms that Did Not Contain Reforms

Country	Region	Project ID	Name	Date approved	Amt (\$ millions)	Fiscal %
Ghana	AFR	P110147	Second Agriculture DPO	6/3/2010	25	18
India	SAR	P116020	Banking Sector Support Loan	9/22/2009	2000	50
Latvia	ECA	P115709	Financial Sector DPL	9/22/2009	282.65	7
Pakistan	SAR	P102607	Higher Education Support Program	9/10/2009	100	20
Tunisia	MNA	P095388	Integration and Competitiveness DPL	3/24/2009	250	7
Vietnam	EAP	P107062	Second Program 135 Phase 2 Support	5/21/2009	100	30
Vietnam	EAP	P104694	Higher Education DP Program 1st Operation	6/23/2009	50	30

Source: World Bank data.

Note: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; MNA = Middle East and North Africa; SAR = South Asia.

ratio multiplied by the difference between the real interest rate and the growth rate (an indicator of the debt-stabilizing primary surplus). The indicator does not account either for the refinancing needs of the government—a factor that may trigger debt distress in situations of vanishing credit and sizeable short-term maturing debt.

External vulnerability indicator: Similar to the fiscal stress indicator, the external vulnerabilities of the 48 countries were assessed by an indicator composed of two subindicators: (i) the import coverage, in months, of foreign exchange reserves and (ii) the foreign-currency denominated debt in proportion to exports of goods and services. Both are measured at the end of 2008.

The import cover of foreign exchange reserves provides a measure of vulnerability in the face of a situation where inflows from export revenues and external financing may cease. The ratio of foreign debt to exports provides a measure of the country’s capacity to sustain foreign-currency denominated debt in the face of the risk of a reduction in foreign-exchange revenues. Both metrics are relevant in a situation of sharp trade contraction such as the one triggered by the global economic crisis in 2009.

However, various other metrics are relevant and could have been considered, in particular the adequacy of reserves to meet refinancing needs of short-term debt falling due (for an analysis see “Assessing Reserve Adequacy,” IMF 2011a). The indicators have to be interpreted with caution, as for example, the level of reserve adequacy would also depend on factors such as the exchange rate regime, with lower levels of foreign exchange reserves in principle required in countries with flexible exchange regimes.

The 48 countries were ranked in decreasing order by the number of months of imports covered by the stock of foreign exchange reserves. They were then ranked in increasing order by the foreign debt-to-exports ratio. The average value of the two scores on these rankings was used as an indicator of external vulnerability.

Lower (higher) values of the indicator are associated with lower (higher) levels of external vulnerability as they corre-

spond to higher (lower) levels of foreign exchange reserve adequacy and lower (higher) levels of foreign debt in proportion to exports.

(3) Selection of Lending Operations for In-Depth and Streamlined Reviews

The evaluation of World Bank crisis-response DPOs with a focus on fiscal management combines findings from a streamlined review of the 67 crisis-response operations, and from an in-depth review of 25 among these operations in 16 countries. The simplified review covered the portfolio of all 100 DPOs with some fiscal content approved in FY09 and FY10. The analysis, however, focuses only on the subset of 67 DPOs identified as crisis-response operations.

The country selection is purposeful, designed with the aim of ensuring adequate coverage of differences in country fiscal positions at the onset of the crisis. The sample reflects the evaluation team’s interest in covering all four categories of countries relative to their fiscal positions with relative “oversampling” of Europe and Central Asia and Latin America and the Caribbean countries to reflect the geographical impact of the crisis (table E.5). The Bank provided financial support with no parallel IMF facility in place in six of the selected countries. Two of these countries were categorized in the “low fiscal stress” zone (Nigeria, Peru); three faced “moderate fiscal stress” (Indonesia, Uruguay, Vietnam), and one country at “high fiscal stress” (Jordan) had graduated from a series of IMF-supported programs. The IEG in-depth reviews in the selected countries included interviews with project teams and interviews with country authorities and other partners in three countries where IEG visits took place (El Salvador, Indonesia, Poland).

3. Budget Support via DPOs with No Fiscal Content—The Environmental DPOs

In addition to DPOs with fiscal management, financial sector, or social protection content, the Bank extended counter-cyclical financing to crisis-hit countries through DPOs with a sector focus unrelated to the global crisis. During the crisis, eight “environmental DPOs” were approved in six countries

TABLE E.5 In-Depth Review Countries: Fiscal Positions and World Bank/IMF Financial Support

Fiscal stress zone at onset of crisis	World Bank support with parallel IMF facility in place	World Bank support with no IMF facility in place
High	Jamaica, Ghana, Poland	Jordan
Moderate	El Salvador, Mexico, Romania, Serbia, Ukraine	Indonesia, Uruguay, Vietnam
Low	Costa Rica, Georgia	Nigeria, Peru

Source: IEG and IMF data.

(Brazil, Colombia, Ghana, Indonesia, Mexico, and Peru), including supplemental financing in one case. These operations were earmarked in the Country Partnership Strategies as instruments, among other Bank interventions, to achieve specific results in sustainable development. Common aims of the operations were to strengthen environmental governance and mainstream environmental sustainability principles, including climate change mitigation measures, in sector regulations (especially in agriculture, fisheries, energy, and transport). However, most of these operations were recalibrated in response to the financial crisis, with no noticeable change in content.

In Brazil, the preparation of the environmental DPL was advanced by a year and the commitment increased from \$1 billion to \$1.3 billion. The program was, however, broadened to include reforms at the Ministry of Environment and the National Water Agency. The operation, although programmatic, turned out to be stand-alone, as the second planned operation did not materialize because of important delays in the effectiveness of the first operation. Similarly, compared to their concept stages, the commitment amounts were increased from \$250 to \$450 million in Colombia; from \$100 to \$300.8 million in Mexico; and from \$25 to \$330 million in Peru (first environmental DPL). In Mexico, in addition to the initial increase in commitment, supplemental financing of \$401 million was provided two months after the approval of the environmental DPL (table E.6). The operations in Ghana and Indonesia were the only exceptions to these patterns. In Ghana, where fiscal adjustment had to be undertaken, the commitment of the two environmental DPOs was reduced compared to the lending program in the Country Assistance Strategy. In Indonesia, the Climate Change DPO was prepared according to plans and approved when the crisis had passed.

In all four countries (Brazil, Colombia, Mexico, and Peru) the DPOs were approved at the height of the crisis, between October 2008 and March 2009, when access to capital markets had virtually evaporated. These operations thus served as an effective backstop to financing plans. Moreover, all four countries initiated different degrees of fiscal stimulus—from frontloading expenditures in the 2009 budget (Mexico) to new stimulus measures ranging between 2 and 3 percent of GDP (Brazil, Colombia, and Peru). The environmental DPOs served to partly finance these countercyclical programs. In some cases crisis-related budget support from environmental DPOs was complemented by operations with a focus on fiscal management (Peru and Mexico). By contrast, in Colombia no policy support was provided through a DPO with fiscal focus. In Brazil, there was no policy support to fiscal management at the federal level. However, two DPOs

helped address the fiscal consequences of the crisis at the subnational level, in the states of Alagoas and Rio de Janeiro.

Financing through environmental DPOs in the countries where these operations provided crisis-related budget support matched commitments through DPOs with fiscal content. Commitments through environmental DPOs in Brazil, Colombia, Mexico, and Peru amounted to \$2,782 million, almost matching commitments through DPOs with fiscal management content (\$3,034 million).

4. Findings from In-Depth Operation Reviews

This appendix provides additional information on findings from the in-depth reviews of fiscal management-focused DPOs conducted by IEG. These findings provide additional background to the evaluation.

(1) Support for Fiscal Consolidation: Jamaica, Ukraine, Romania, and Poland

In Jamaica, the 2009 DPO was a stand-alone operation, prepared to help the refinancing of a Euro-bond loan falling due. Most of the fiscal measures envisaged to increase the primary fiscal surplus (divestiture of public bodies; public employment rationalization; public financial management reforms) although desirable, had a long gestation period, and, in the case of privatization, faced market uncertainty associated with the global crisis. The fiscal measures supported were thus not sufficient to enhance debt sustainability in the short term. Bolder fiscal measures were agreed in the 2010 DPO, the first in a programmatic series, such as a two-year wage freeze and the abolition of “deferred financing” of public expenditures.

In Ukraine, despite the low level of public debt, a tightening of fiscal policy—including a reduction in the quasi-fiscal deficit of the energy sector—was needed to arrest the deterioration of external imbalances at a time when credit from international capital markets was evaporating. The Bank’s DPO was urgently finalized and disbursed at the end of 2008, and with a higher commitment amount than in the CPS. However, although it made sense to reduce the quasi-fiscal deficit of the energy sector, the prior actions in this area were vague, and no clear target was identified. Moreover, the DPOs envisaged reduction of the consolidated budget deficit was backward-looking, with no agreed fiscal measures that would have resulted in a fiscal improvement in 2009 and beyond. Similarly, the program envisaged a set of nonbinding options for long-overdue pension reform and modest tax administration measures that were not sufficient to mitigate the fiscal impact of the crisis. In the event, the actual fiscal deficits in 2008 and 2009 were higher than projected, while

TABLE E.6 Environmental Sustainability and Climate Change DPOs in the Context of Country Fiscal Positions and Policy Responses to the Crisis						
	Brazil	Colombia	Ghana	Indonesia	Mexico	Peru
Operations and dates	Sustainable Environmental Management DPL March 2009	Sustainable Development DPL December 2008	2 nd and 3 rd Natural Resources and Environmental Governance DPOs June 2009 June 2010	Climate Change DPL May 2010	Environmental Sustainability DPL October 2008 Supplemental financing December 2008	1 st and 2 nd Environmental DPLs February 2009 December 2009
Commitment amount (US\$ million)	1,300	450	10 (2 nd DPO) 10 (3 rd DPO)	200	300.8 401 (supplemental financing)	330 (1 st DPL) 50 (2 nd DPL)
Link to CPS lending program	Included in CPS; advanced from 2010 to 2009; amount increased from \$1 billion in CPS	Included in CPS; amount increased from \$250 million at concept review stage	Mentioned in CPS; series initiated pre-crisis; commitment amounts of DPOs 2 and 3 lower than planned	Included in CPS; no amount indicated	Included in CPS; no amount indicated; commitment increased from \$100 million at concept stage; supplemental financing provided	Planned in the CPS; no amount indicated; commitment of 1 st DPL increased from \$25 million at concept review stage
Design of operation	Programmatic; first in series; second DPL dropped	Programmatic; third in series; series completed	Programmatic; series completed	Stand-alone; with indicative actions for future operations	Stand-alone but complementing the Climate Change DPL (April 2008)	Programmatic; a DDO was associated to the 1 st DPL (\$310 million)
Fiscal position at the onset of crisis	Moderate fiscal deficit; high level of gross debt	Low fiscal deficit and debt	High fiscal deficit and debt	Low fiscal deficit and debt	Moderate fiscal deficit and debt	Fiscal surplus; low debt
Policy response to the crisis	Fiscal and monetary stimulus in 2009	Fiscal and monetary stimulus in 2009	Fiscal consolidation	Fiscal stimulus in 2009	Fiscal stimulus in the first half of 2009; consolidation in the second half	Fiscal and monetary stimulus in 2009
Other crisis-related operations in support of fiscal management	Only at the state level (Alagoas and Rio de Janeiro DPOs); no DPO with fiscal content at the federal level	No DPO with fiscal content	1 DPC June 2009	2 DPLs December 2008 and September 2009 PESF DPL-DDO March 2009	1 DPL November 2009	2 DPLs August 2008 and November 2009

Source: IEG DPO review.

Note: CPS = Country Partnership Strategy; DDO = Draw Down Option; DPC = Development Policy Credit; DPL = Development Policy Loan; PESF = Public Expenditure Support Facility.

the quasi-fiscal deficit of the energy sector increased from an estimated 2.7 percent of GDP in 2008 to 4 percent in 2010.

In Romania, after strong growth in 2003–08 underpinned by leveraged bank credit, the economy contracted sharply as a result of the crisis. The fiscal measures supported by the 2009 DPL were narrow in scope, while the fiscal benefit from Bank support was mainly expected from structural reforms programmed in the two follow-on DPLs. Measures to contain expenditures and improve efficiency, designed as “triggers” for DPLs 2 and 3, focused on the introduction of a revised benefit package and copayments for health services; the im-

plementation of a new provider payment mechanism; the piloting of per capita financing for schools; measures to ensure fiscal sustainability of pillar 1 pensions; and implementation of a new pay and grading framework for civil servants.

In Poland, the first DPL in a new series, approved in November 2008 (\$1.25 billion), supported a broader fiscal reform program for convergence with the EU. Although the downside risks associated with the global economic crisis were acknowledged, the draft 2009 budget supported by the DPL as a prior action targeted a deficit of 2 percent of GDP, which was projected to further decline to 1.5 percent of GDP

in 2010. The execution of the 2008 budget—another prior action for the DPL—was expected to be on track, providing a strong fiscal basis for 2009. As a result of revenue loss due to the crisis—but also higher than budgeted spending in 2008—the fiscal deficit surpassed the projections, reaching 3.6 percent of GDP in 2008 and 7.2 percent in 2009.

Poland had some room for automatic fiscal stabilizers to cushion the impact of the crisis. However, to preserve fiscal sustainability over the medium term, the government had to present a supplementary budget by mid-2009, enacting up to 10 percent savings in discretionary spending but preserving key expenditures in the social sectors. The second and third DPL, approved in July 2009 (\$1.3 billion) and June 2010 (\$1.33 billion), respectively, shifted more resolutely to a strategy of medium-term fiscal consolidation through structural fiscal reforms and caps in discretionary spending.

(2) The Public Expenditure Support Facility for Indonesia

Indonesia entered the crisis with a relatively comfortable fiscal position, with a near-balanced budget and public debt at 33 percent of GDP. However, because of the large share of public debt (including domestic debt) held by nonresidents, and increased risk aversion, there were sizeable capital outflows at the onset of the crisis. This resulted in a significant depreciation of the rupiah; rising credit default swap spreads; and higher financing costs for the government. Gross borrowing needs for 2009 were \$24 billion, with foreign exchange reserves at \$52 billion. There were thus lingering illiquidity concerns as international credit markets were virtually closed in the fall of 2008.

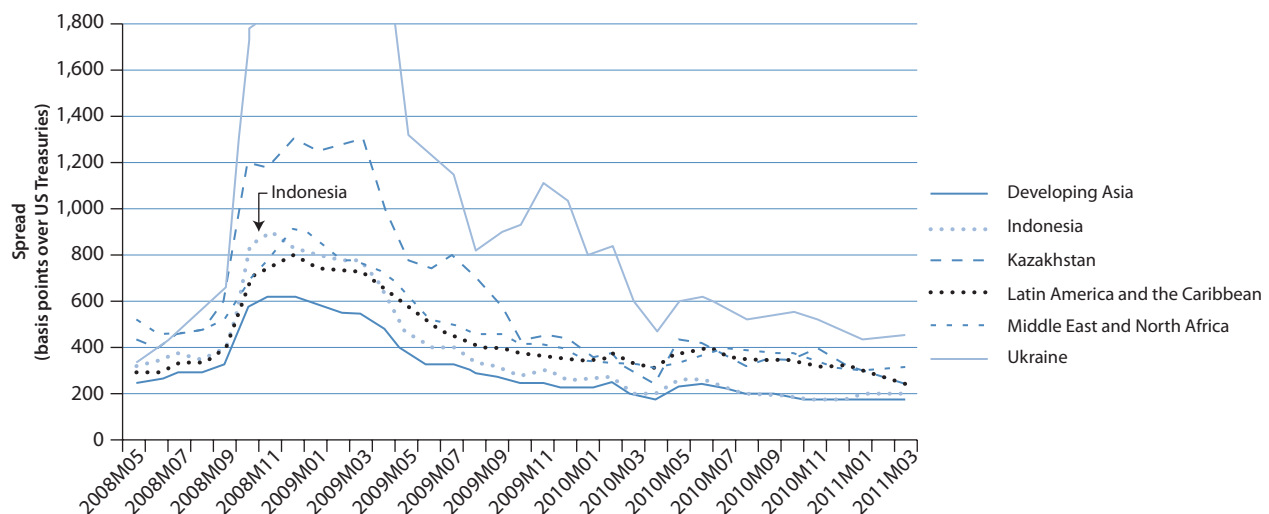
The contingent support package supported provisions in the 2009 budget to sustain, and increase if necessary, critical public expenditures in the event of a pronounced slowdown. Eventually, spending on social safety net programs did not increase in 2009. However, because of the mildness of the growth slowdown, poverty continued to decline in Indonesia, from 15.4 percent in 2008 to 14.1 percent in 2009 and 13.3 percent in 2010.

Indonesia was able to access the market again by mid-2009, with a noticeable decrease in sovereign bond spreads. The 40 percent decrease in Indonesia's spreads between March 2009, when the DPL-DDO was approved, and May 2009 was the largest among 41 emerging economies covered by the Emerging Markets Bond Index, next only to the decline in the spreads of Ukraine and similar to that of Kazakhstan—two countries with banking crises that had witnessed a much higher cost of borrowing at the onset of the crisis. It is possible that the significant improvement in market access for Indonesia reflects, to some extent, the positive impact on confidence of the contingent credit line provided by the DPL-DDO.

(3) Fiscal Measures to Protect Pro-Poor Programs in Crisis-Response DPOs

In Poland, the DPL series placed emphasis on ensuring adequate financing of social assistance programs to mitigate the impact of the crisis on the poor. The 2009 DPL supported the provision of a Social Solidarity Reserve in the 2009 budget, funded by an increase in excise taxes, to protect households vulnerable to the crisis. The 2010 DPL further supported an increase in family allowances, through higher means-tested child benefits.

FIGURE E.1 Emerging Markets Bond Index Sovereign Bond Spreads (May 2008–March 2011, %)



In Romania too, the 2009 DPL supported an increase in the eligibility threshold for the Guaranteed Minimum Income with full financing from the State budget. Additional measures to maintain indexation of the Guaranteed Minimum Income to inflation and secure the funding of the Universal Child Allowances over 2010-11 were designed as triggers for the follow-on DPL.

In Ghana, with support from the 2009 DPO, the major social protection program (LEAP) was expanded, while pro-poor social expenditures were prioritized based on an assessment of their impact on poverty. In Serbia, the 2009 Public Expenditure DPL that supported the government's ambitious program of fiscal consolidation included provisions for maintaining social assistance spending in the revised 2009 budget at least at the level projected in the original budget.

In El Salvador, the DPL on Sustaining Social Gains for Economy Recovery was prepared as a supplement to the 2009 Public Finance and Social Sector DPL. By protecting critical non-personnel recurrent expenditures, the program supported by this DPL ensured that critical supplies would not be absent in schools and hospitals. The school feeding program was expanded to urban areas to improve the nutrition of students and their attendance to schools. The copayment in public hospital was eliminated, as it had proven to be an effective deterrent to the use of hospitals by poor people.

In Jordan, the 2009 DPL supported the deployment of an unemployment insurance program, with full coverage of all Social Security Corporation members, as well as improved targeting of Jordan's main social safety net institution—the National Aid Fund. In Uruguay the DPL supported a new family allowance system with the aim of increasing the coverage of households in the poorest quintile by the core social safety program (Plan de Equidad Social).

(4) World Bank Support to Stimulus Packages: Vietnam and Peru

In Vietnam, the PRSC-8 and Public Investment Reform DPL provided financial resources for the government's stimulus package, but the operations did not include any policy content to support or direct this package. The stimulus was implemented between December 2008 and July 2009 and was equivalent to an estimated 5 percentage points of GDP (\$4.6 billion). The package included tax cuts, frontloading of public investment, an interest rate subsidy scheme, and extra spending on social safety net programs.

However, the stimulus was introduced at a time of declining oil revenues, so that the fiscal deficit increased to 8.9 percent of GDP in 2009. The program did boost domestic demand, and cushioned the impact of shrinking exports on GDP, but

it also contributed to increasing external vulnerability. High credit growth also contributed to a widening trade deficit and to a worsening current account balance in the course of the year. As a result, the exchange rate came under pressure, depreciating by about 10 percent, while one-fourth of foreign exchange reserves were lost during the year. Eventually, fiscal and monetary policies had to be rebalanced, with a tightening in the fall of 2009. This restored confidence in the currency, but also conveyed a sense of policy “stop-and-go” that may have obscured investor horizon over the medium-term.

By contrast, in Peru the government's stimulus plan was included as a prior action in the third programmatic Fiscal Management and Competitiveness DPL (September 2009). The fiscal stimulus, equivalent to about 3 percent of GDP, entailed an increase in primary public expenditures with emphasis on public investment. This made the additional spending less likely to be entrenched over the medium term, contrary to stimulus measures in other countries that emphasized less easily reversible expenditures (El Salvador) or tax cuts (Indonesia, Vietnam). In parallel, the operation included a commitment (as a prior action) to maintaining a prudent fiscal stance during the implementation of the stimulus program, in accordance with the country's Fiscal Responsibility Law. Additional actions to create fiscal space for countercyclical spending, by reviewing tax exemptions so as to broaden the tax base, were supported by the second DPL in the series (July 2008). Peru withstood the crisis remarkably well, with growth rebounding strongly in 2010 after a slowdown in 2009.

(5) Comprehensive Support to Public Financial Management Reforms: Poland, Serbia, Indonesia, and Jamaica

In Poland, the DPO series supported a new Law on Public Finance that includes the introduction of a Medium-Term Expenditure Framework and performance-based budgeting (PBB), consolidation of government units, stronger internal audit, and establishment of debt ceilings. This should have the effect of tighter control over expenditures in the future and greater results orientation. PBB was introduced with the 2010 budget, and it is expected to be fully operational from 2013 onward. Issues of management of the budget, expenditures, and cash do not seem paramount, as the country has fairly well-developed systems.

In Serbia the laws established under the 2009 Public Expenditure DPL-1 provide a comprehensive framework for public financial management, including budget planning, execution, monitoring, procurement, and audit. This program includes two additional DPLs and addresses some

other chronic problem areas that Serbia faces: reform of the pay and grading system for public employees, reform of the pension system, and introduction of reforms aimed to lower the costs of health care and improve resource allocations in education. Unlike other countries, the Serbian reforms do not emphasize PBB, although they do include a medium-term planning framework.

In Indonesia, the DPL series has also been supporting comprehensive public financial management reforms, although progress so far seems uneven. The government now has better control and monitoring of expenditures, mostly thanks to reforms that eliminated multiple accounts and consolidated the budget process. The work on the budget and treasury management information system will improve monitoring of expenditures, but it will take several years to operationalize. There seems as yet little program evaluation, a multiplicity of monitoring systems imposed on line ministries, and only slow progress in moving toward PBB. Steps to accelerate disbursements do not seem to have had much effect and may have been negated by procurement and audit reforms that have slowed the disbursement process. The ability to accelerate key expenditures in a crisis is therefore lacking, as evidenced by the choice of tax cuts as a stimulus measure during the crisis over expenditure expansion.

In Jamaica, the 2010 crisis-response DPL supported reforms to strengthen the medium-term management of the budget, in tandem with innovative debt management solutions. A Framework of Fiscal Transparency and Responsibility was introduced with the aim of consolidating budget accounts and better controlling fiscal balances. The execution of the budget was also expected to improve through the discontinuation of the practice of “deferred financing.” In parallel, a highly successful debt exchange program involved a reduction in the interest rate of public debt, extension of maturities, and consolidation of public debt issues with no reduction in the face value of debt.

(6) Structural Fiscal Reform Areas Unaddressed by Fiscal Management–Focused DPOs: Nigeria, Indonesia, and Vietnam

In Nigeria, the Excess Crude Account is a stabilization fund intended to mitigate the high dependence of the budget on volatile oil revenues that impart procyclicality on spending. There is scope, however, for improving the transparency and predictability in its operation. The account has operated both as a stabilization fund and a revenue-sharing scheme among states and local governments. Transparency in its operations could have been reinforced, as it lacked a rules-based mechanism for the allocation of withdrawn funds, while funding and withdrawal rules were flexible, and ne-

gotiable. The lack of rules-based release of funds from the Excess Crude Account eventually led to a procyclical fiscal policy in 2010, after the global crisis, as a substantial draw-down of funds took place at a time when stabilization in a context of high oil prices would have called for a rebuilding of account balances. The Bank, in collaboration with the IMF, provided assistance to the government in designing a National Sovereign Wealth Fund, which was established in May 2011. This is a welcome development, but, during the time frame covered by the Development Policy Credit, states had unchecked access to the Excess Crude Account, because of the lack of a rigorous legal framework; as a result, fiscal policy had a pronounced procyclical character.

In Indonesia, the reform of energy subsidies that absorb a large part of budgetary resources—equivalent to, or at times exceeding, capital and social assistance spending combined—remains a challenge. It was overshadowed in the preparation of the 2008 and 2009 programmatic DPOs and the Public Expenditure Support Facility. The Bank has remained engaged in this agenda essentially through policy dialogue; yet, despite some recent energy tariff adjustments, progress has remained slow and energy subsidies continue to limit the fiscal space for expanding public investment and expenditures for social transfers, education, and health. The fall in energy prices triggered by the crisis in the fall of 2008 could have provided an opportunity to downsize energy subsidies. The resulting fiscal space could help scale up pro-poor social programs and investment.

In Vietnam, longstanding challenges remain in areas such as the design and execution of the federal budget—especially the recognition of contingent liabilities or the passing of a supplementary budget on the basis of generally accepted international principles. The 2009 Public Investment Reform DPL addressed in an innovative manner issues in the investment project cycle. However, one area of little progress was procurement, where processes suffer from lack of transparency and often favor discretion and negotiation as means to contain costs to the budget.

(7) Knowledge Gaps in Analytical Underpinnings of Fiscal Management–Focused DPOs: Romania and Mexico

In Romania, the Bank’s lending and advisory engagement in the aftermath of the country’s EU accession had decreased, which hampered the knowledge base support of the crisis-response DPL series initiated in 2009. The Public Expenditure and Institutional Review (PEIR) conducted in 2006 provided an assessment of Romania’s Medium-Term Expenditure Framework and broad directions for expenditure

reforms in key sectors. However, with limited lending operations in these sectors, the 2006 PEIR recommendations were rather general and not actionable to provide policy content to the 2009 DPL series. The Bank moved swiftly, however, to update the PEIR, which was completed in 2010. This is expected to provide sound analytical underpinnings to the follow on operations in the series—including for the introduction of a “zero pension pillar” to improve protection of the vulnerable in the future.

In Mexico, a large portion of the outstanding portfolio was prepaid, reducing Bank exposure from \$10 billion to \$6 billion. This resulted in a smaller lending program, less interaction between the Bank and the government, and a smaller AAA program. This was especially the case in fiscal policy, where the last PEIR was prepared in 2004, while the 2006 Policy Note that was prepared for the new government addressed mainly issues in the management of oil revenue windfalls. Thus, the knowledge base in fiscal management was not as strong when the crisis hit, as reflected in the rather generic and backward-looking fiscal measures supported by the DPO.

Fiscal Projections Pre-Crisis Compared with Post-Crisis Outcomes

IEG compared the 2011 levels of fiscal deficit and public debt (in proportion to GDP) projected during the crisis for the 16 countries covered by the in-depth DPO reviews to the expected outcomes for the same year post crisis. The pre-crisis 2011 projections are those indicated in the project documents of the DPOs with fiscal management focus that IEG reviewed. In most cases, the projections are included in operations approved by the Bank in 2009, when the impact of the crisis had already materialized. In some cases, however, the operations were approved at an early stage of the crisis (in the fall of 2008) when it was admittedly too early to accurately assess the impact of the crisis.

The most recent forecast of 2011 fiscal outcomes is taken from the IMF September 2011 Fiscal Monitor for countries included in this publication and from the most recent IMF Article IV reviews or IMF lending facilities reviews. The pre-crisis projections and post-crisis expected outcomes are compared in table E.7.

Country	Projected pre-crisis			Projected post-crisis		
	Fiscal balance 2011 (in % of GDP)	Public debt 2011 (in % of GDP)	Projection date (PAD)	Fiscal balance 2011 (in % of GDP)	Public debt 2011 (in % of GDP)	
Costa Rica	-3.5	38.8	Mar-09	-5.6	45.4	July 2011 Article IV
El Salvador	-1.1	37.1	Dec-08	-3.5	51.3	April 2011 2nd review under SBA
Georgia	-3.9	34.8	Jun-09	-3.6	36.8	June 2011 Article IV
Ghana	-4.5	63.5	Jun-09	-4.7	42.8	June 2011 Article IV
Indonesia	-1.6	27.3	Nov-08	-1.8	25.2	*
Jamaica	-7.8	113.3	Dec-08	-2.3	133.2	Feb. 2011 3rd review under SBA
Jordan	-5.4	65.2	Oct-09	-6.2	68.5	*
Mexico	-2.8	40.3	Oct-09	-3.2	42.9	*
Nigeria	-2.4	6.1	Jul-09	0.4	15.7	*
Peru	-1	16	Sep-09	0.6	21.5	*
Poland	-1.9	44.8	Jun-09	-5.5	56	*
Romania	-2.7	25.7	Jun-09	-4.4	34.4	*
Serbia	-3.0	32.3	Oct-09	-4.1	41.1	April 2011 7th review under SBA
Ukraine	-0.9	13.5	Nov-08	-2.8	39.3	*
Uruguay	-0.1	61	Dec-08	-1.1	52.3	March 2011 Article IV
Vietnam	-6	48.5	Jun-09	-4.3	50.9	September 2010 Article IV

Source: IMF.
Note: PDA = Project Appraisal Document; SBA = Stand-By Arrangement.
* Fiscal monitor report September 2011.

TABLE E.8 Allocation of Crisis-Related FY09–10 World Bank Support by Country Fiscal Position and External Vulnerability (2007–08)

Country	Region	Commitments of fiscal-focused DPOs (\$ millions)	Fiscal deficit	Public debt	Deficit ranking	Debt ranking	Fiscal stress ranking
Kazakhstan	ECA	1,000	2.9	6.3	2	1	1.5
Belarus	ECA	200	2.8	11.5	3	2	2.5
Paraguay	LAC	100	2.3	20.5	5	6	5.5
Nigeria	AFR	500	1.1	12.2	9	3	6
Macedonia, FYR	ECA	30	-0.2	21.8	12	9	10.5
Peru	LAC	520	2.7	28.3	4	18	11
Benin	AFR	30	0.1	24.3	11	14	12.5
Costa Rica	LAC	500	1.3	27.8	8	17	12.5
Rwanda	AFR	115.8	-0.4	24	13	13	13
Georgia	ECA	85	-0.6	24.6	16	15	15.5
Guatemala	LAC	550	-1.5	20.6	26	7	16.5
Armenia	ECA	60	-2.0	16.2	30	5	17.5
Mali	AFR	70.5	-1.4	22.9	25	11	18
Panama	LAC	100	1.9	44.8	6	30	18
Lesotho	AFR	25	6.6	59.1	1	36	18.5
Dominican Republic	LAC	150	-1.6	22.8	27	10	18.5
Ukraine	ECA	500	-2.6	16.1	34	4	19
Samoa	EAP	20	-0.6	33.7	15	23	19
Mauritius	AFR	150	1.8	47.3	7	33	20
Indonesia	EAP	3,500	-0.6	35	14	26	20
Croatia	ECA	296.75	-1.1	31.3	21	19	20
Mongolia	EAP	40	-1.0	33.6	20	22	21
Romania	ECA	422.99	-4.0	20.6	37	8	22.5
Bosnia and Herzegovina	ECA	111	-2.1	31.9	31	20	25.5
Mexico	LAC	1,503.8	-1.4	40.7	24	29	26.5
Vietnam	EAP	850	-1.4	44.8	23	31	27
Senegal	AFR	103	-4.3	24.7	39	16	27.5
Burkina Faso	AFR	290	-4.9	23.1	43	12	27.5
Uruguay	LAC	400	-0.7	62.3	18	38	28
Central African Rep.	AFR	5	0.1	79.4	10	46	28
Turkey	ECA	2,600	-2.0	39.5	29	28	28.5
Serbia, Rep. of	ECA	100	-2.3	34.3	33	24	28.5
El Salvador	LAC	550	-2.3	39.3	32	27	29.5
St. Lucia	LAC	12	-0.9	66.3	19	41	30
Côte d'Ivoire	AFR	240	-0.7	74.1	17	45	31
Togo	AFT	16.3	-1.4	70.3	22	44	33
Malawi	AFR	54	-4.5	34.6	41	25	33
Tajikistan	ECA	45.4	-6.1	32.5	45	21	33
Brazil	LAC	680.45	-2.0	64.6	28	39	33.5
Poland	ECA	3,881.54	-2.8	46	35	32	33.5
Lao, PDR	EAP	40	-3.3	61.7	36	37	36.5
Jordan	MNA	300	-4.3	64.6	38	40	39

	Fiscal stress zone	External debt as % of exp.	Forex. res./ imports	External debt ranking	Import cover ranking	External stress ranking
	1-low	140.4	4.3	33	14	23.5
	1-low	33.2	0.8	3	47	25
	1-low	46.5	3.5	5	21	13
	1-low	13.4	10.0	2	3	2.5
	1-low	94.1	3.1	21	30	25.5
	1-low	79.3	10.7	15	1	8
	1-low	56.3	6.3	7	5	6
	1-low	67.1	2.7	11	34	22.5
	1-low	98.1	4.8	23	12	17.5
	1-low	91.6	2.3	20	37	28.5
	2-moderate	152.0	3.4	36	22	29
	2-moderate	193.8	3.5	42	20	31
	2-moderate	83.3	3.4	18	25	21.5
	2-moderate	66.5	1.6	10	44	27
	2-moderate	73.3	6.3	14	6	10
	2-moderate	86.5	1.5	19	46	32.5
	2-moderate	108.8	3.7	25	19	22
	2-moderate	114.2	3.1	27	31	29
	2-moderate	12.7	3.2	1	27	14
	2-moderate	94.4	4.1	22	16	19
	2-moderate	194.4	4.4	43	13	28
	2-moderate	60.5	1.8	8	42	25
	2-moderate	163.7	4.9	37	11	24
	2-moderate	121.1	3.2	30	26	28
	2-moderate	65.7	3.4	9	24	16.5
	2-moderate	35.8	3.4	4	23	13.5
	2-moderate	80.7	2.7	17	35	26
	2-moderate	226.1	3.8	45	18	31.5
	2-moderate	117.2	7.4	29	4	16.5
	2-moderate	444.6	3.1	47	29	38
	2-moderate	149.7	4.0	35	17	26
	2-moderate	205.0	5.1	44	9	26.5
	2-moderate	165.2	2.6	39	36	37.5
	2-moderate	163.8	2.1	38	40	39
	2-moderate	110.1	2.8	26	33	29.5
	3-high	144.3	4.2	34	15	24.5
	3-high	79.8	1.5	16	45	30.5
	3-high	131.7	0.4	31	48	39.5
	3-high	114.8	10.5	28	2	15
	3-high	140.0	3.0	32	32	32
	3-high	331.7	4.9	46	10	28
	3-high	53.0	5.3	6	7	6.5

TABLE E.8 Allocation of Crisis-Related FY09–10 World Bank Support by Country Fiscal Position and External Vulnerability (2007–08) (*continued*)

Country	Region	Commitments of fiscal-focused DPOs (\$ millions)	Fiscal deficit	Public debt	Deficit ranking	Debt ranking	Fiscal stress ranking
Ghana	AFR	300	-11.9	55.6	47	34	40.5
Pakistan	SAR	500	-6.4	56.7	46	35	40.5
Hungary	ECA	1,413.21	-4.4	69.4	40	43	41.5
Maldives	SAR	13.7	-12.0	67.5	48	42	45
Guinea-Bissau	AFR	6	-4.8	171.8	42	48	45
Jamaica	LAC	300	-5.2	115.8	44	47	45.5

Source: IEG, based on IMF World Economic Outlook data.

Note: Regions: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

	Fiscal stress zone	External debt as % of exp.	Forex. res./ imports	External debt ranking	Import cover ranking	External stress ranking
	3-high	69.7	2.2	13	38	25.5
	3-high	190.3	1.8	41	43	42
	3-high	108.5	3.2	24	28	26
	3-high	69.1	1.8	12	41	26.5
	3-high	630.3	5.3	48	8	28
	3-high	186.5	2.1	40	39	39.5

Methodology

The objective of the social protection chapter is to delineate the impacts of the financial crisis on the poor and vulnerable, analyze how different countries responded to protect households, and assess the extent to which the Bank's support for social protection helped reduce some of the negative impacts. In particular, it looks at—

- The adequacy of countries' crisis response mechanisms
- The responsiveness of the Bank to the crisis urgency (for example, was the allocation of resources and the instruments the Bank used to intervene appropriate; did the Bank consider both immediate crisis needs and long-term system strengthening)
- The alignment of Bank support to country conditions (for example, were objectives of Bank crisis interventions well aligned with crisis impact on households; were country programs that the Bank supported appropriate to the crisis challenge)
- The adequacy of design of Bank's response to the crisis (were project design choices and results frameworks adequate for protecting the poor and vulnerable, including crisis affected households; how sustainable are outcomes).

For this real-time evaluation, IEG defines the social protection crisis response period as FY09-11 (the first six months). Because of the multiple crises since 2008, including the food and fuel crisis and the financial crisis, as well as natural disasters in a number of countries and the sustained effects these can have on the poor and vulnerable, the effects of the Bank's support to mitigate the consequences of the financial crisis cannot easily be separated from other crisis-related efforts. Rather, in countries where there was a continuum of crises, these other crisis impacts are considered in assessing the overall Bank's response during the crisis period. Finally, because the impacts of the financial crisis was the strongest in two regions: Eastern Europe and Central Asia and Latin America and the Caribbean, the evaluation places special emphasis on these two regions throughout its assessment.

Even though the evaluation was prepared within a very short time frame, it draws on several different sources including the findings from IEG's recent evaluation of the Bank's support to

social safety nets (IEG 2011b). The sources used in this evaluation include, a portfolio analysis of all of the Bank's 136 social protection lending projects approved between FY09 and FY11, 16 in-depth country case studies, a review the use of the Rapid Social Response Program's (RSR) trust funds in six low-income countries, and draws on IEG's recent evaluation of Social Safety Nets undertook a survey of Bank Social Protection staff to obtain feedback regarding countries' experiences with safety nets in the context of the crises, as well as Bank social safety net assistance to countries in response to the crises.

Portfolio Review of Bank Lending

The World Bank's Social Protection lending portfolio was used throughout the evaluation to determine trends and performance of Bank's crisis response. Project variables were taken from the Bank's operational database, another internal database, and many other variables were coded based on IEG reviews of project documents such as Project Appraisal Documents, Project Papers, Project Information Documents, or Program Documents.

To identify projects supporting social protection during the period, IEG selected all projects coded as part of the Social Protection crisis response and approved between FY09 and FY11 (until December 31, 2010). The Social Protection crisis response portfolio was defined the same way as the Human Development Network defines it in its monthly reports. That is, it includes all projects that are coded as 51 (Improving Labor Markets), 54 (Social Safety Nets), 56 (Other Social Protection and Risk Management), and 87 (Social Risk Mitigation). Projects listed under priority theme 91 (Food Crisis Response) are not included in this report even though some are focusing on social safety net issues.

Half of the projects were investment and technical assistance loans, while 40 percent were DPLs and 10 percent Emergency Recovery Loans. The portfolio includes 22 Additional Financing Loans. All but three Additional Finance Loans (in Mexico, Moldova, and West Bank and Gaza) followed projects that were approved before FY09. These three Additional Finance Loans all did something new to the project and, hence, all Additional Financing Loans are counted as freestanding projects.

IEG reviewed project design documents to code variables not available in Business Warehouse. Projects were coded in terms of which social protection subsectors they addressed, the level of crisis focus and design details, the type of country social protection program supported, and the crisis focus of the results frameworks and targeting.

Social Protection sectors: The types of social protection programs supported by the project were divided into six categories (social safety nets, social insurance, contributory pensions, labor market programs, social care services, public work programs/community-driven development), and “undefined” for those projects that could not be easily categorized. Public works programs were distinguished from other active labor market policies and were coded in a separate category. Labor market programs referred to labor market services and these were further specified in a set of questions that coded for unemployment benefits, training, and placement services. Training referred to specific retraining targeted to recently displaced workers or vulnerable groups and not general education. Social care services referred to projects supporting homes or centers for vulnerable groups such as disabled and orphans.

Project objectives: IEG coded projects by whether they aimed at poverty prevention, poverty protection/coping, promotion out of poverty, or a combination of the three. Protection was the broadest category, and most projects fell into that category. Prevention was coded mainly for projects including social insurance and pensions. Promotion was coded for projects with training, education, nutrition, or human capital components. Projects with pension components were coded as both prevention and protection. All conditional cash transfer projects were coded as both protection and promotion. Furthermore, projects were coded by the five functions that social protection can serve: mitigate chronic poverty/inequality; invest in human capital of the poor (divided into education and health care/nutrition); help households manage systemic risks; help households manage household risks; and compensate the poor/vulnerable from negative effects of macro reforms. The functions are not mutually exclusive, as projects and programs could serve several of the functions depending on design. For example, all conditional cash transfers fell into both mitigating chronic poverty/inequality and invest in human capital of the poor. Social care services for youth also fell into the category of helping the poor and vulnerable invest in human capital. Projects that aimed to mitigate food, fuel, and financial crisis impacts were coded as systemic risk as were projects that provided support in the context of disasters, war, or seasonal welfare changes. Household risk was coded mainly for projects including some form of health insurance component.

Crisis relation: The next set of questions focused on whether the project was crisis related or not. Some projects were not crisis related but aimed at long-term risk mitigation or poverty reduction. Others aimed directly at the food, fuel, financial, or some other crisis (natural disaster, war, drought, and so forth). For some projects both long-term risk mitigation as well as some type of crisis were coded, particularly in low-income countries. If the project was crisis-related, the types of household-level crisis effects that were addressed in the project were also coded. The household-level crisis effects were divided into four categories: (i) contraction in income, (ii) depletion of assets or investments, (iii) increased unemployment, (iv) reduction in government’s fiscal space to finance social protection.

Crisis targeting: The portfolio review coded targeting details of project design. First, the review indicated if the project specifically targeted benefits to people affected by the crisis (whichever crisis the project aimed at). In determining whether the project specifically targeted crisis-affected people, IEG reviewed project objectives, performance indicators, and description of targeting methods in the document. Few projects were found to specifically target crisis-affected people. Most projects had vaguer target groups such as “the poor.” Second, IEG coded the type of targeting method used (proxy means testing, geographic targeting, and so forth).

Results frameworks: The results frameworks of the project documents were used to assess the adequacy of project monitoring and evaluation. Project Development Objectives were coded based on their “outcome drive” (how clearly they described the specific development change that was expected as a result of the project) and whether they mentioned the project’s target population. IEG indicated if outcome indicators and intermediate outcome indicators (when related to the social protection aspect of the project) were linked to the development objective and whether they had baselines, target values, and were time bound. If there was a table showing numerical values for the life of the project, but these were not identified as targets, it was not assumed that these were the project’s targets. If there were several variables, at least 50 percent had to have baselines, targets, and be time bound to merit a “1” in those questions. Project indicators were also coded based on their “outcome drive.” For example, indicators that referred to the developmental changes expected from the project (for example, people employed as a result of training) were coded as outcome-driven, and indicators which referred to such things as number of training centers established were coded as output-driven.

In addition to the 136 projects categorized as social protection crisis response, IEG also reviewed nine DPOs in nine coun-

tries that were labeled as including pension reform. The reason for reviewing these projects, even though they were not labeled as social protection crisis response, is because in many countries the cost of public pensions is large and can, during economic contractions, be heavy burdens on the strained fiscal stance. The review found that in five of the DPOs the operations had as an objective to make the pensions system more financially viable and more fiscally affordable.

Review of RSR Trust Funds to IDA Countries

The study reviews the use of the RSR Multi-Donor Trust Fund (MDTF) and Catalytic Fund in six countries and covering eight activities (box F.1). The six countries were drawn using a stratified random method choosing three from Africa and one each from three other regions. Regional and global programs were excluded. The review looked at the following:

- The activities undertaken by eligible activities, themes and subthemes
- Their relevance to the food, fuel, and financial crises and future crises (as it is assumed that the recent experience covers most crisis situations, bar technical disaster management)
- Their effectiveness in creating outputs and outcomes
- Their effect on organizational/institutional and financial capacity and sustainability.

The summary table F.1 describes the objectives of the different activities. Activity notes provide more detailed information on the financed activities. While the table includes outcome indicators, in some instances these were not explicit in the documentation, but were defined by IEG.

A summary ranking of each of the funded projects was applied to each activity, based on its relevance to food, fuel, and financial-type crises. The summary ranking is as follows:

- Rank 3: the RSR funded activity has focused on supporting social protection programs that directly address the current and future vulnerability of households and individuals affected by the food, fuel, and financial crises; outputs and outcomes of the activity have been determined and show a meaningful increase in program efficiency and/or effectiveness; sustainability analysis has been done and, where appropriate, arrangements for sustainability are in place.
- Rank 2: the RSR-funded activity supports social protection programs that directly address the current and/or future vulnerability of households and individuals

BOX F.1 THE RSR AND TRUST FUNDS FOR IDA COUNTRIES

Rapid Response Program (RSR). The RSR was established as part of the Bank's overall response to the social impact of global economic and financial crisis. Its objectives are the following:

- Safeguard lives and livelihoods during the global crises by promoting social protection measures, such as social safety nets and labor market programs and maintenance of access to basic health, education, and other vital services for communities, especially poor and vulnerable groups; coordinate, monitor, and report on the Bank's response in thematic areas of safety nets, labor, and access to basic social services across all Bank client countries
- Channel additional donor grant contributions to leverage IDA resources
- Prioritize response in lower-income countries, especially fragile states.

Multi-Donor Trust Fund (MDTF). The MDTF funds a subset of activities under the RSR program specifically in low-income countries, including: (i) country-level technical assistance and capacity-building in IDA countries; (ii) direct grants to IDA-eligible countries for piloting promising approaches and innovations, and for scaling up program benefits; and (iii) supporting knowledge management activities. Themes under the MDTF include safety net systems; labor markets and employment; access to basic social services for the poor (nutrition, health, education).

RSR Catalytic Fund (CF). The Catalytic Fund sets the stage for the launch and implementation of the RSR program by supporting in selected IDA countries: diagnosis, analysis, and strategy and guideline development in areas that are key to promoting social protection measures, including social safety nets, labor market programs, and protection of access to basic services such as nutrition, health, and education.

TABLE F.1 MDTF Projects and Their Objectives	
Project	Objective
Cameroon – Strengthening Safety Net Response to Crises	Demonstrate the inefficiency of current universal food and fuel subsidies; and contribute to the design of a safety net pilot with the goal of achieving a responsive national safety net system.
Haiti – Addressing Gender-based Violence in Post-earthquake Haiti	Address the increased incidence of gender-based violence in Haiti since the earthquake, particularly among the internally-displaced populations living in camps by providing funding for local institutions to provide essential support services.
Haiti – Household Development Agent Pilot	Pilot a new outreach mechanism to improve family health and nutrition practices; and strengthen capacity to deliver social services directly to needy families; including strengthening management and monitoring of the access to social services to families.
Kenya – Support to the Government of Kenya for Social Protection Programming	Support the development of safety net mechanisms for households to provide immediate relief from the current crisis, as well as better protection for the longer term, including by providing more rapid responses to shocks.
Kenya – Support to the Kenya Youth Empowerment Project	Build a safety net for unemployed youth by improving effectiveness and increasing access to youth-targeted temporary employment programs. (The MDTF accompanies and supports a Bank-financed youth empowerment project.)
Liberia – Development of a Crisis Response Social Protection Strategy and Capacity	Social protection authorities able to develop and manage a sustainable, equitable and responsive social protection system.
Nepal – Strengthening Safety Nets in Nepal: Piloting Targeted Conditional Cash Transfers	Pilot a conditional cash transfer program and build related management and administrative capacity.
Timor-Leste – Innovative Approaches for Developing Effectiveness of Safety Nets	Build a more efficient safety net against shocks and for permanent relief.
<i>Source:</i> World Bank. <i>Note:</i> MDTF = Multi-Donor Trust Fund.	

affected by the food, fuel, and financial crises; there is an incomplete set of output and outcome indicators but they do show a meaningful increase in program efficiency and/or effectiveness; while sustainability analysis has been done, sustainability is uncertain.

- Rank 1: the RSR funded activity supports social protection programs that do not address the current and/or future vulnerability of households and individuals affected by the food, fuel, and financial crises; there is an incomplete set of output and outcome indicators, and they do not provide any meaningful indications of efficiency/effectiveness improvements; there is no sustainability analysis, or the analysis indicates questionable sustainability.
- Rank 0: the RSR funded activity bears little relationship to the current or future vulnerability of the households and individuals affected by the food, fuel, and financial crises.

Table F.2 indicates that in most instances projects directly addressed the food, fuel, and financial crisis-related risks; that consideration had been given to measuring outputs and outcomes (with the notable exception of the projects in Haiti which addressed the urgent needs caused by the earthquake) and, again, that sustainability was a consideration in

most projects, except the Haiti gender-based violence project, which was a one-time intervention to address a specific time-bound issue.

Of the \$9.9 million allocated to those countries, 95 percent went to provision of technical assistance to develop safety nets. The remainder was spent on creating employment opportunities for young workers in Kenya and immediate services in Haiti to reduce gender violence in refugee camps, and strengthen family health and nutrition practices. In Kenya, the MDTF is being used to build a safety net for unemployed youth by improving effectiveness of and increasing access to youth-targeted temporary employment programs. This activity accompanies and supports a Bank-financed youth empowerment project.

Trust Fund activities were quickly put in place, demonstrated to be flexible to new needs, and created an opportunity to build the dialogue on safety net systems providing a foundation for future investment lending. In most instances—five of eight projects—the trust funds were used for initiatives with direct relevance for FFF-type of activities and with special attention paid to sustainability issues. The actual impacts of the trust-funded interventions still remain to be established, as most programs are still ongoing.

Country and project	Rank indicators			Rank
	FFF—type crisis focus	Outcomes	Sustainability	
Cameroon	+	++	+	3
Strengthen Safety Net Response to Crisis				
Haiti^a				
Household Development Agent Pilot	–	–	+	1
Gender—based Violence	–	–	–	0
Kenya				
Social Protection Programming	+	+++	+	3
Youth Empowerment	+	++	+	3
Liberia				
Development of Crisis Response Strategy	+	+++	+	3
Nepal				
Strengthening Safety Net Pilot CCT	–	+	+	2
Timor				
Effectiveness of Safety Nets	+	++	+	3

Source: IEG review of IDA trust funds.

Note: Criteria for rankings: FFF (+ programs directly addressed current and future FFF = related vulnerability, – programs do not address FFF = related issues); outputs/outcomes (+++ outputs and outcomes are measurable and meaningful for FFF, ++ outputs or outcomes are measurable and meaningful for FFF, + neither outputs nor outcomes are easily measurable, but still meaningful for FFF, – Results are not meaningful for FFF); sustainability (+ arrangements for sustainability have been considered, – arrangements for sustainability have not been considered).

a. These Haiti projects have a low relevance rating in terms of the food, fuel, and financial crisis because of the project’s aim to address the specific urgent need caused by the earthquake.

Case Studies

The evaluation undertook 16 in-depth country case studies to understand the nature of the Bank’s overall work on social protection during the crisis period in client countries.

Country Selection

Sixteen in-depth country case studies were conducted to learn how the global financial crisis (and other crises) has

affected countries and their population socially. The social safety nets evaluation (IEG 2011) completed 30 in-depth case studies; this evaluation drew on that evidence and focused on 12 countries. In addition, four new countries (El Salvador, Latvia, Mexico, and Poland) were selected purposefully. These countries were selected because they were significantly affected by the global crisis. The 16 countries selected for case studies are shown in table F.3.

AFR	EAP	ECA	LCR	MNA	SAR
	Indonesia	Albania	Brazil	Yemen, Rep. of	Pakistan
	Philippines	Bosnia and Herzegovina	El Salvador ^a		
		Bulgaria	Guatemala		
		Latvia ^b	Jamaica		
		Moldova	Mexico ^b		
		Poland ^b	Uruguay		

Source: IEG.

Note: Regions: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

a. Purposely selected.

b. Purposely selected and included field work.

The evaluation oversampled countries in Europe and Central Asia and Latin America and the Caribbean (five each) because these were the regions hardest hit by the crisis. Overall, the selection of the 16 countries was guided by the depth of the crisis in the country as well as the extent of social protection lending support provided by the Bank. The 16 countries represent both countries with significant as well as light impacts of the crisis. They also include countries with multiple Bank operations focused on social protection to countries without any newly approved social protection lending during the FY09-11 period. Thirteen of the case study countries relied on a desk review of relevant materials as well as interviews with Bank staff involved in the countries' social protection response to crisis. Three countries (Latvia, Mexico, and Poland) also included in-country interviews with clients and partners.

Approach and Sources

The data produced by the case studies were based on substantial and in-depth reviews of Bank and non-Bank project and program documents (including Project Appraisal Documents, program documents, Implementation Completion Reports, Implementation Completion Report Reviews, implementation status reports, Project Performance Appraisal Reports, and country strategies), research documents, analytic and advisory activity documents, evaluations, and other formal and informal communication notes. The analytical material consulted included, among others, poverty assessments, public expenditures reviews, country economic memoranda, poverty and social impact analyses, beneficiary assessments, impact evaluations, country social assistance reviews, and country social protection strategies. In addition, IEG conducted a number of interviews with key Bank staff and managers who have been involved in the social safety nets support to the countries (one to two interviews per country). Each desk-based case study took approximately three days to complete; field-based case studies took seven to nine days. The three countries also involved country visits and extensive interviews with client, other key stakeholders, and development partners and visits to social safety net programs sites and local offices.

Methodology

The case studies used a 10-page structured questionnaire laying out the crisis context and pre-crisis social protection programs, relevance of bank crisis response, and effectiveness of Bank crisis response. The questionnaire included structured qualitative questions and a number of discrete quantitative questions enabling assessment of both trends and contextual details. Some questions were factual while others required an assessment using data and evidence to support the assessment. The quantitative questions asked information that

could be answered “yes,” “no,” “somewhat,” or “not applicable.” For example, “Was the country concerned hit by the food and/or fuel crises prior to the global financial crisis?” or “Did the country already have in place a system for the delivery of social protection/social safety net assistance prior to the crisis?” The answers had to be justified and explained using evidence and data. The quantitative information was used to determine trends among the countries.

Quality Control and Consistency across Case Studies

Three IEG staff and consultants undertook the 16 case studies. At the start of the work, IEG organized workshop for the team to review the case study questionnaire and get common understanding of what information was needed to answer the questions and come to a conclusion on the quantitative and rating questions. Each draft case study was vetted by the task manager of the social protection pillar as well as the other case study author for consistency and evidence base. Where questions arose about relative rankings, discussions were held to compare different country experiences.

Use of Data

At the end of the process the team had gathered detailed information about social protection programs in the 16 countries. The case study information fed into the evaluation through detailed analysis by themes. IEG compiled the analytical pieces and triangulated evidence from quantitative and qualitative case study answers as well as information from the portfolio review and the low-income country study.

Food, Fuel, and Financial Crises Survey

Purpose of the Survey

The recent food, fuel, and financial crises underscored the urgency of appropriate crisis responses from governments and the World Bank to avert major escalations of global poverty. The aim of the survey was to obtain feedback from Bank staff working in different regions regarding not only countries' experiences with social safety nets in the context of the crises, but also Bank social safety net assistance to countries in response to the crises.

An electronic survey was sent to each social protection sector manager, who then assigned the survey to a staff member responsible for each country in their region. Responses came directly to IEG and thus the responses remained confidential. Results are available by region, but confidentiality is maintained by not releasing country-specific data. The sector manager followed up several times with staff to ensure survey completion; this process led to a high response rate.

Survey Response and Analysis

The survey response rate is defined as the number of actual survey responses divided by the total number of countries as determined by lending classification in each region. The World Bank data group classifies countries by lending category into IBRD, IDA, and blend. IDA countries are those that have a per capita income in 2009 of less than \$1,165, and lack the creditworthiness necessary to borrow from IBRD. Blend countries are eligible for IDA loans because of their low per capita incomes but are also eligible for IBRD loans because they are financially creditworthy.

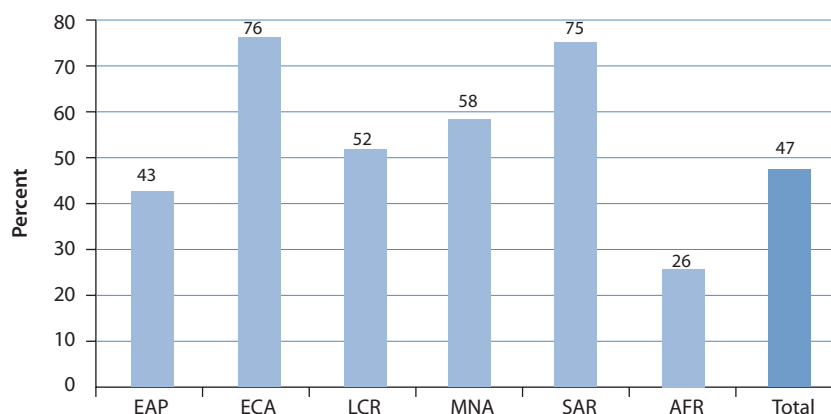
The response rate for the survey was 47 percent (Bank staff in 65 countries responded to the survey). Europe and Central Asia and South Africa had the highest response rates, and Africa had the lowest. To assess if the response for the survey was representative of all Bank clients, the characteristics of those countries that responded were compared with those that did not. IEG regressed the response rates (1 = responded, 0 = did not respond) for countries against regional dummies and pre-crisis variables such as the log of GDP per capita in 2007 and social safety net take-up in 2000–07 (1 = the country had a SSN program supported by a Bank project).

IEG found that countries that did not respond were more likely to be in Africa and were also less likely to have a Bank-supported social safety net operation. There were no significant differences between response rates of other regions (South Asia, East Asia and Pacific, Europe and Central Asia, and Middle East and North Africa) compared with Latin America and the Caribbean; nor were there any statistically significant differences between the income level of respondents and nonrespondents. Within Africa, countries that responded were more likely to have a social safety net program supported by the Bank but they were not different in income level from countries that did not respond. In conclusion, the survey responses were found to under-represent African countries that do not have Bank-supported social safety nets.

To correct for this response bias, IEG reweighted the survey responses with the inverse of the predicted values from the probit regression and found that survey responses were not sensitive to the use of weights to balance the sample due to differences in response rates. Therefore, all numbers presented for the survey are based on the original unweighted responses.

Survey data were analyzed in aggregate and by region and by low-income and middle-income countries. Aggregate results were presented in IEG's 2011 evaluation (IEG 2011b).

FIGURE F.1 Survey Response Rate



Source: IEG 2011b.

Note: AFR = Africa Region; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

Additional Tables and Figures

Country	Bank social protection crisis lending (US\$ millions)	Bank total lending (US\$ millions)
Mexico	3,016.6	10,575.8
Poland	901.4	3,881.5
Colombia	669.3	2,729.8
Turkey	626.0	5,285.1
Philippines	590.2	1,087.0
Argentina	458.0	3,585.0
Ethiopia	412.8	2,290.0
Pakistan	334.0	2,601.1
Hungary	240.2	1,413.2
Brazil	197.6	8,237.7
Total 10 countries	7,446.3	41,686.3
Total all countries	9,789.8	117,536.2
Percentage share	76	35

Source: IEG portfolio review and World Bank data.
Note: Total social protection crisis response lending per country is calculated by multiplying the total loan amount with the share of the project allocated for social protection crisis response.

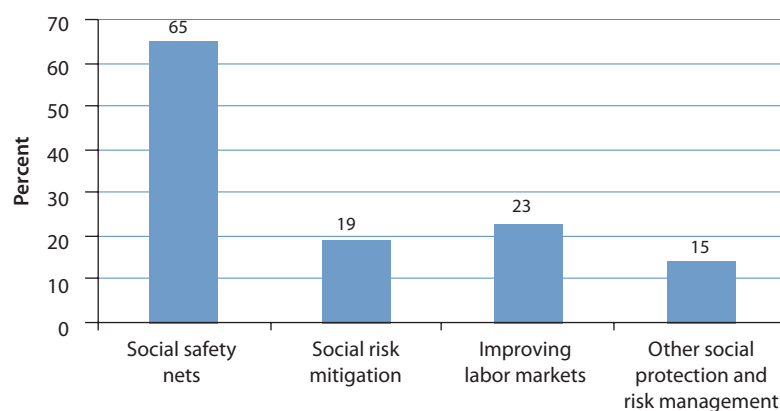
Objective	Total	Low-income countries	Middle-income countries
No crisis aim: Aim at long-term poverty reduction and/or strengthening of social protection systems	65	57	86
Aim at financial crisis	70	70	69
Aim at food crisis	24	40	19
Aim at fuel crisis	24	22	25
Aim at other crises	7	17	3

Source: IEG portfolio review.
Note: A project can have multiple aims so percentages do not add up to 100.

TABLE G.3 Countries with No Previous Lending for Social Safety Nets		
Africa	EAP	MNA
Cameroon	Lao PDR	Djibouti
Central African Republic	Papua New Guinea	West Bank & Gaza
Comoros	Timor Leste	
Gambia		
Guinea		
Guinea-Bissau		
Lesotho		
Liberia		
Sudan		
Togo		

Source: IEG portfolio review of safety net lending FY00–08 and data on crisis response trust funds received by the Social Protection Team.
 Note: Listed countries benefitted from crisis window trust funds but had, prior to receiving the trust funds, not had any lending for social safety nets since FY00. EAP = East Asia and Pacific; MNA = Middle East and North Africa.

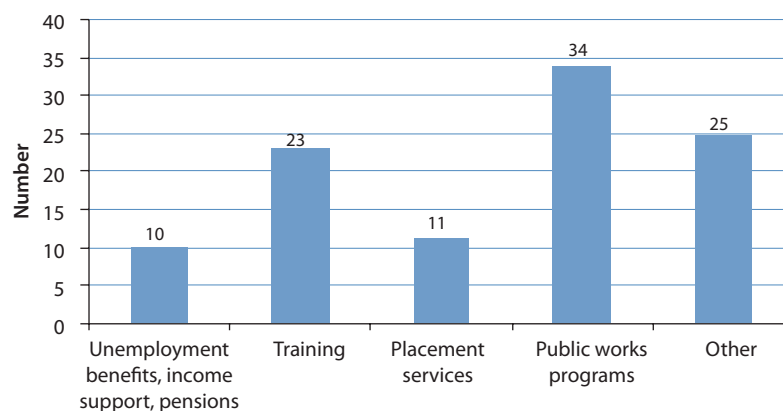
FIGURE G.1 Percent of Social Protection Crisis Response Projects by Social Protection Theme



Source: World Bank data.

Note: The themes are not mutually exclusive as each project can include aspects of various themes.

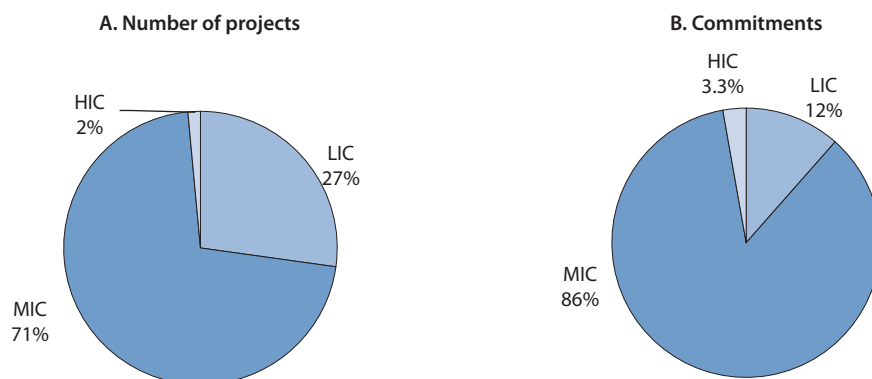
FIGURE G.2 Number of Labor Market Programs



Source: IEG portfolio review.

Note: Public works programs also include community-driven development projects.

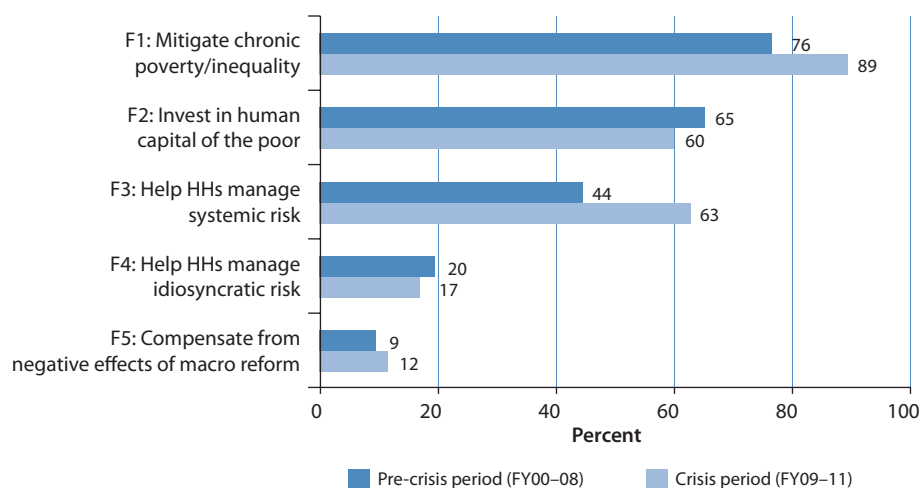
FIGURE G.3 Social Protection Crisis Response by Income Level



Source: IEG portfolio review.

Note: Numbers may not total 100 because of rounding.

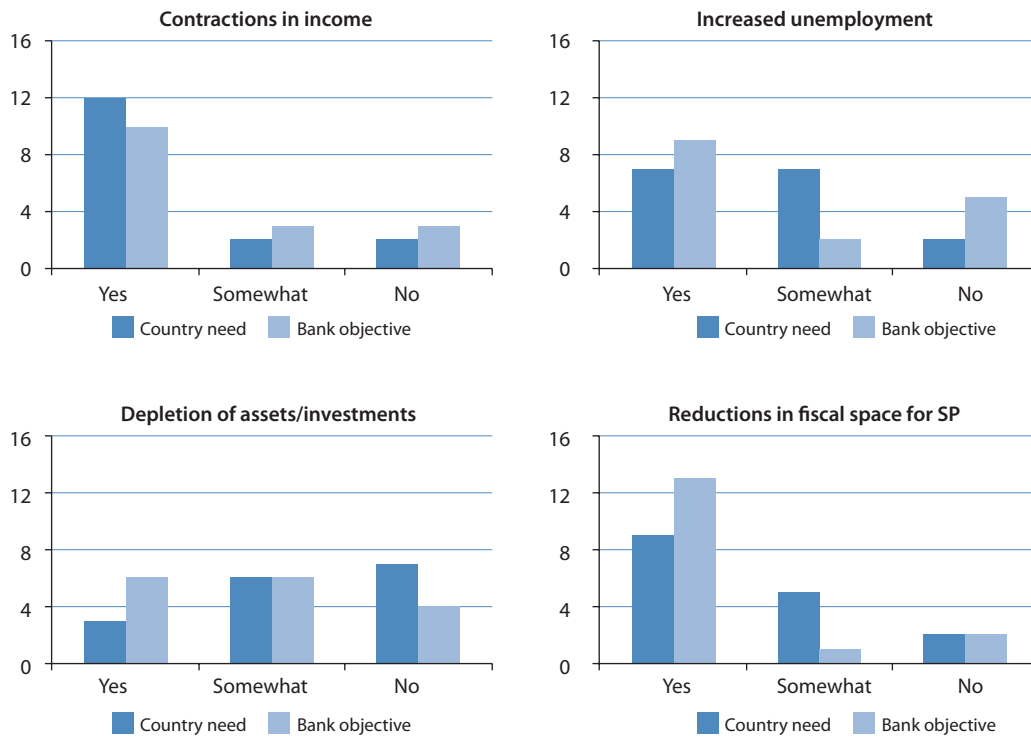
FIGURE G.4 Social Safety Net Projects By Function, Pre-Crisis versus Crisis Period



Source: IEG portfolio review.

Note: Calculated based from data obtained in the portfolio review and the portfolio review undertaken by IEG’s social safety net evaluation. The mapping of projects to the five functions of safety nets is only done for projects supporting safety net. Of the 244 projects included in the safety net portfolio, 169 were approved in FY00-08. Of these, 75 (44 percent) focused on helping households address systemic risk. The focus on safety nets for addressing chronic poverty remained high.

FIGURE G.5 Country Crisis Impacts and Bank Objectives, Number of Countries



Source: IEG case studies.

Note: SP = Social Protection.

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Endnotes

Management Response

1. IEG notes in “Limitations/Caveats” of Appendix B (p. 173) that “For data and methodological reasons, these findings are intended to be indicative, and should be interpreted as correlations, not causal effects. Caution must also be exercised when comparing World Bank lending patterns with that of other IFIs and MDBs... there are differences among these institutions in terms of mandates, focus on crisis, financial capacity, instruments, pricing, and so forth that are not completely addressed by the econometric analysis. Moreover, there are factors that cannot be included (for example, political economy of decision making), some issues of measurement error (for example, arising from the definition of the crisis period, the fact that crisis is observed with error, among others), and data limitation (for example, small number of observations when it comes to subsample analysis, data on all indicators are not available for all countries) that have implications for the analysis... Lastly, the analysis is intended to be descriptive; as mentioned above, it is also a partial picture of overall Bank assistance (these other aspects are addressed in chapters 3–6) and a prescriptive interpretation should be avoided.”
2. IEG also states in its own report that, “A credible counterfactual analysis of what might have happened in specific countries the absence of Bank crisis support would be virtually impossible to establish. ... New crisis lending may also reflect other factors that influence lending decisions, including country demand, country performance, and the engagement of other IFIs” (p. xiv).
3. See, for example, IEG 2011, page xiii, and IEG 2008, page 6. In the latter, IEG concludes that “Evaluations also found that the loans were excessively ambitious in the range of problems they tried to tackle and the large number of conditions they included.”
4. Based on the Cap Fund criteria, all six investments made through the Cap Fund were in systemic banks. By design, the Cap Fund can only support systemic banks, defined as those with market share exceeding 7 percent. In addition, the Cap Fund takes only equity stake of not less than 10 percent, except for banks with market share exceeding 20 percent where the minimum participation is 5 percent. All Cap Fund investments met these criteria.

Chapter 1

1. On December 10, 2009, the Bank’s Board of Executive Directors approved the proposal to create a pilot Crisis Response

Window, with an initial funding level of about \$1.3 billion from the redeployment of IDA internal resources, including set-asides for arrears clearance and extraordinary investment income from IDA resources during fiscal year 2009 (July 2008–June 2009).

2. Excluding the Global Trade Finance Program and the Global Trade Liquidity Program and projects under other IFC Global Financial Crisis Response Initiatives; the latter were 100 percent covered by the review.
3. Deemed to be FY09–10 as well as the first half of FY11, as the Joint IFI Action Plan extended to the end of calendar 2010.

Chapter 2

1. New IMF lending instruments, although introduced shortly after the crisis, were part of a longer-term overhaul of IMF conditionality and instrument design.
2. AfDB’s higher lending rates partly reflect higher borrowing costs; however, its spread was also a little higher.
3. G20 Toronto Summit Declaration, June 26–27, 2010. For the IMF, increases in financial capacity were undertaken through gold sales and the expansion of the New Arrangements to Borrow. When established in 1997–98, the New Arrangements relied on credit lines from advanced economies. They have since been expanded to include contributions from large emerging market economies like Brazil, China, India, Mexico, and Russia following the G20 call.
4. Like IBRD, ADB’s paid-in capital increase is to be paid in various tranches over time. Callable capital was secondarily helpful in easing borrowing capacity constraints for the regional MDBs.
5. G20 Communiqué, November 2008.
6. The blurring of mandates was a major topic in the World Bank in the early 1980s, when quick-disbursing structural adjustment lending was introduced. It was again debated at the Bank—and also at the ADB and the IDB—following the East Asia Crisis with the introduction of Special Structural Adjustment Loans—or emergency lending, as it was called in some institutions—which carried five-year maturities. This has been a topic in the MDBs in recent years as well, including at the AfDB, as they have responded to the crisis with increasing shares of quick-disbursing funding. Meanwhile, in the IMF, the opposite side of the debate has raged—with questions about the appropriateness of IMF lending for growth and development, as evidenced in facilities for low-income countries and prolonged use of resources by some other countries. See, for example, IMF (2004) and IMF (2007.)

7. See, for example, the FY09 \$1.5 billion Mexico Support to Oportunidades Project and the FY09 Colombia \$0.6 billion Second Social Safety Net Project.
8. “Both direct budget support (channeling of Fund purchases to the member via the Treasury) and indirect budget support (channeling of Fund purchases to the member via the central bank to finance the budget) have been widely used in past Fund arrangements, and were not temporary features of the current crisis. However, the incidence of direct budget support has increased in recent years, as (i) the global financial crisis and the required flexible fiscal response, and (ii) institutional changes in member countries, especially the move to greater central bank independence, have both called for lending to members to be channeled through Treasuries rather than central banks” (IMF 2010d).
9. However, according to some analysts, it served the purpose of temporary liquidity provision for which it was designed. The impact of the program has been empirically examined in *The Financial Impact of the IDB’s Liquidity Program for Growth Sustainability* (Bebczuk 2010). The paper finds a positive and significant effect on financial stability attributable to the Liquidity Program for Growth Sustainability.
10. The ADF is the concessional financing arm of the ADB, resembling IDA relative to the Bank.
11. Based on IEG data from EBRD.
12. EBRD data are subject to the caveats that they were assembled at a group level rather than individual client level, and they do not distinguish between active and inactive past clients.
13. Mexico, Poland, and Colombia received IMF support in the form of Flexible Credit Lines, which are reserved for the best performers.
14. The disbursement ratio of outstanding investment loans increased during the crisis to 22 percent, compared with 20 percent on average per year pre-crisis. The disbursement ratio is defined as the ratio of disbursements during the fiscal year to undisbursed loans at the beginning of the fiscal year. It is defined only for investment lending operations. The average disbursement ratio is calculated on a per annum basis.
15. However, the pre-crisis and crisis periods used here are FY06–08 and FY09–10; as the Bank’s new DPL policy was effective September FY05, the count of programmatic lending in that year may not be reliable. Use of earlier numbers does not reflect the same results.
16. “If delivery of a fast-tracked operation would exceed the country’s 30 percent frontloading threshold, frontloading of up to 50 percent will be considered. It is possible that country demands could increase the share of development policy lending in total annual IDA commitments beyond 30 percent; in that case, Management would seek the Board’s guidance, as agreed during the IDA15 replenishment” (World Bank 2008d).
17. IDA resources are not reallocated on crisis grounds—only in the last year of a replenishment are limited amounts reallocated, typically not according to criteria that take account of the severity of impact of a crisis.
18. Note that IEG does not evaluate other IFIs/MDBs, as the sample used for the comparison is limited to countries that borrowed from the World Bank during the crisis period. As an example, countries such as Russia, Ecuador, and Venezuela that received large EBRD/IDB support, but no Bank support, are excluded from the analysis. Similarly, countries such as Lithuania that are not eligible Bank borrowers are excluded from the sample although they did receive EBRD crisis support. Thus, the IFI/MDB data are used to benchmark Bank support to borrowing countries during the crisis period; and any interpretation of the analysis as an evaluation of IFI/MDB’s response would not be correct.
19. There is a strong correlation between this measure of GDP decline and the one used in the Phase 1 evaluation (the correlation coefficient is 0.73), but the alignment is not perfect. The measure used in the first study identifies China, Colombia, the Dominican Republic, India, and Kenya as more crisis affected than the present measure. The measure used in this study identifies Albania, Belarus, Grenada, Jamaica, Moldova, and Serbia as more crisis affected, compared with the previous measure.
20. Based on a total of 117 countries, this implies 10–11 10-country bands and 23–24 5-country bands—adjusting for some observations that may be missing. Using three groups can lead to contrasting conclusions if the thresholds for categorizing countries are set arbitrarily. Applying the same thresholds to the present measure of GDP decline, these results do not fully obtain and show, conversely, that countries classified as moderately affected had the lowest increase in resource allocation. See appendix B, section 2.
21. This finding is based on those countries that actually borrowed in FY09–10. The association was not found to be significant, although it had the right sign.
22. With 117 actual and 147 eligible borrowers, this implies, for actual borrowers, 24 5-country and 12 10-country bands, and for eligible borrowers, 15 10-country and 30 5-country bands (with the last bands having fewer countries). This is an approximation to a continuous distribution and a considerably finer grid than the three broad bands of the first evaluation.
23. Controls included prelending volume, IBRD eligibility, population, relative size of the economy, and pre-crisis fiscal deficit. Other controls, such as Country Policy and Institutional Assessment, country credit risk ratings, share of Bank total lending by major donors in the pre-crisis period, regional and donor fixed effects, and income, were also used in alternative specifications to test the robustness of the findings. IEG also did a test to see if large pre-crisis borrowers were more likely to be affected by the crisis, but there was no statistically significant relationship between pre-crisis lending volumes and the crisis measure.
24. Among the controls used in the analysis are country credit risk rating, donor fixed effects, and share of Bank in pre-crisis donor lending. These variables (albeit not perfect) are intended to capture some of the demand and coordination effects. See appendix B, section 2. However, included as controls in the

analysis were share of country in total Bank lending and share of Bank lending in total country lending by major donors in the pre-crisis period. Moreover, most analysis was done on a sample of countries that actually borrowed from the Bank in 2009–10.

25. Although it should be noted that pre-crisis lending, which has been added as a control in the analysis, would capture some of this effect.
26. Apart from the Bank, the major donors considered include ADB, AfDB, EBRD, EIB, EU, IDB, IFC, IMF, and MIGA. The FY09–10 data are compared to data for calendar years 2005–07 for institutions other than the Bank Group, IMF, and IADB, as data for the other institutions are only available on a calendar year basis. A robustness check using calendar year 2008–10 data found that the results are robust and, moreover, the relationship between crisis intensity and response by other donors is stronger.
27. Excluding only the IMF and the EU, the increase in lending by other major donors to the subsample of countries that borrowed from the Bank in 2009–10 was lower than the Bank (127 percent versus 78 percent).
28. The high correlation of IMF lending and crisis severity in the present crisis has been documented by the IMF (1999).
29. Excluding the IMF and EU, the increase in lending by other donors was 103 percent.
30. Controls included size of pre-crisis lending, relative size of the economy, country income, and existence of IMF program. For analysis of Bank lending, an additional control was added to denote if the country is eligible for IBRD loans.
31. Controls included relative size of the economy, pre-crisis lending volume, and income. Alternative specifications included the presence of an IMF program. The differential pattern may be driven by higher incremental lending by IDB to some countries with high crisis effects. For instance, Venezuela and Jamaica, which were highly affected, accounted for some 15 percent of incremental lending by IDB and only 1.5 percent for the Bank. Excluding Mexico, which accounted for some 50 percent of incremental Bank lending to countries in the Latin America and the Caribbean Region, IDB had a higher increase in lending to countries with above-average crisis effects than the Bank (\$1.7 versus \$1.1 billion).
32. Although AfDB and ADB responses were not correlated with composite crisis intensity measures. Because the composite crisis score is available for only 27 of 32 common borrowers, for the composite index, results are reported instead on the basis of GDP alone.
33. For instance, among countries eligible to borrow from the Bank and ADB, India, Indonesia, and Vietnam, which were top five based on share in incremental lending, were in the quartile of countries with the second lowest crisis effect. In the case of IDB and Bank-eligible borrowers, Brazil received the second highest increment in borrowing but was in the quartile of countries with the second lowest crisis effect.
34. For instance, Azerbaijan, Bulgaria, Georgia, Moldova, and the Slovak Republic, which had some of the largest declines in GDP growth, were not seriously affected by currency depreciation. In contrast, India, Indonesia, Nigeria, and Poland, which did not have significant declines in GDP growth, were affected by significant currency depreciation. Countries with significant GDP declines, Grenada, Mexico, the Slovak Republic, and Turkey among them, did not face heavy deposit losses in their banking sectors, in contrast to Albania, the Dominican Republic, Seychelles, and Tajikistan.
35. The Asian financial crisis of 1997 is perhaps the most vivid illustration of twin crises, but there have been many similar episodes throughout history and across a wide geographical range, such as the Mexican crisis of 1994 and the Turkish crisis of 2000.
36. The two forms of composite crisis indicators used were included, one based on rank averages of different measures of stress and a second based on an analysis of the principal factor score (details are in appendix B, section 2).
37. Specifically, countries whose share of incremental lending in 10-country bands is 50 percent or more—for example, Kazakhstan (band 1), Turkey (band 2), Costa Rica (band 4), India (band 6), Indonesia (band 8).
38. Regression results are in appendix B, section 2.
39. Excluding only the IMF and the EU, decline in crisis intensity for remaining donors is also associated with a decline in incremental lending.
40. Except with regard to currency depreciation.
41. There are different possible measures of fiscal vulnerability. See appendixes B, section 2, and E, section 2, for details on measures of fiscal vulnerability used in this report to address different questions.
42. Incremental lending was higher for countries with higher fiscal deficits while controlling for decline in output growth. It is plausible that incremental lending may have a differential pattern based on pre-crisis fiscal position of countries; hence, IEG compared declines in growth rate with pre-crisis fiscal deficit levels. In these models, incremental lending was higher for countries with high crisis and moderate level of pre-crisis fiscal stress, and incremental lending was also higher for countries with moderate crisis but high levels of pre-crisis fiscal stress. See appendix B, section 2, for specifications and results.
43. The relationship is weak. If nonlinearity in Bank response to pre-crisis fiscal deficit is accounted for, the coefficient on the fiscal deficit variable is no longer statistically significant, whereas the coefficient on the quadratic term is statistically significant, suggesting larger increases in lending for countries with moderate pre-crisis fiscal deficits (this is true for models that include the interaction of pre-crisis fiscal deficit with growth rate decline and for models where this interaction term was not included). See appendix B, section 2, for specifications and results.
44. Looking at fiscal deficits in 2009 is problematic, as it is possible that they reflect the fiscal position after the donor-supported fiscal stimulus and not fiscal health without the intervention.
45. Using both measures, incremental Bank lending was lowest for 20 percent of the countries with the lowest pre-crisis

reserve ratios (54 percent and 63 percent for reserves over short-term debt and reserves over imports, respectively) and highest for countries with moderate reserve ratios. For other donors, quintile 1, which has countries with the lowest ratio of reserves to short-term debt received the second highest percentage increase in incremental lending (>350 percent). Excluding Mexico, which received incremental lending of more than \$50 billion relative to a pre-crisis level of \$1.3 billion, quintile 1 corresponds to highest increment by other donors. For other donors (excluding the IMF, EIB, and EU), the lending increase to countries with the lowest ratio of reserves to short-term debt (quintile 1) was also one of the highest (95 percent). However, when it came to reserves over import cover, other donors (excluding the IMF, EIB, and EU) had a similar pattern to the Bank; that is, incremental lending was highest for countries with moderate reserve positions. These data are available for 86 of 117 actual borrowers, so care must be taken in interpreting findings.

46. This uses a measure of fiscal space (public debt as a ratio of average revenues) to proxy for absorptive capacity (Didier, Hevia, and Schmukler 2010; Aizenman and Jinjark 2010). Fiscal space here is defined as total public debt divided by average tax revenues during 2000–07, as a measure of the number of tax years required to fully pay the stock of public debt if all revenues are assigned for that purpose. In the analysis, the correlation between fiscal space and fiscal deficit at the onset of crisis is very low, even controlling for pre-crisis lending, region, income, population, and size of the economy.
47. Excluding Mexico (quintile 4), countries in the top two quintiles had the highest incremental lending by other major donors (around 250 percent increase). For the Bank, countries in the second and third quintile saw an increase of around 130 percent in lending. Similar to the Bank, incremental lending by other donors (excluding the IMF, EIB, and EU) was highest for countries in quintiles 2 and 3 (90 percent). However, data are available for only two-thirds of the borrowers, so the results must be interpreted with caution.
48. Controls included population, relative size of economy, pre-crisis IDA lending, and fiscal deficit. The only exception was decline in GDP growth rate, where the relationship was positive and statistically significant; that is, countries that were less affected by decline in growth received more IDA lending. However, this positive effect is diluted if the analysis accounts for differences in private consumption per capita and donor fixed effects.
49. Controls included population, relative size of economy, pre-crisis IBRD lending, and fiscal deficit in 2007–08.
50. Controls included size of pre-crisis IFC support, relative size of the economy, population, and regional fixed effects. The sample of IFC borrowers was limited to those countries that were also eligible to borrow from the Bank (see chapter 4 for further discussion). Looking at indicators of financial sector stress specifically, there is a relationship between incremental IFC response and intensity of banking sector distress, but this is driven by a few countries with high shares of incremental IFC support (for example, Georgia and Kazakhstan). Excluding these countries, the relationship is no longer statistically significant. Controls included size of pre-crisis IFC support, relative size of the economy, population, and regional fixed effects. The sample of IFC borrowers was limited to only those countries that were also eligible to borrow from the Bank (see chapter 4 for further discussion).
51. In the absence of available data on Bank risk ratings, an analysis was undertaken based on risk ratings from IFC's Country Risk Ratings series, which is based on an internal IFC assessment. It closely tracks changes in credit ratings by Moody's, Fitch, and Standard & Poor's. These ratings comprise its Corporate Department's own assessment of the general macroeconomic view of each country. IEG recognizes that this may not reflect all the same parameters as those used by the Bank in its country risk analysis but this is the best available proxy. The regression coefficient for country risk rating is usually statistically significant when it is added as a control; that is, countries with high risk received less incremental lending, which is not surprising. Looking at countries whose country risk went up during the crisis period, the share of Bank lending to countries with an increase in risk of 15–25 points was lower than in the pre-crisis period, whereas for all other donors (including and excluding the IMF), countries whose risk was between 15–25 points had an increase in share of lending in 2009–10, compared to 2005–07. Among countries whose risks went up, the increase in share of Bank lending was more concentrated among countries with an increase in risk of 5–10 points (that is, moderate). In regression analysis, where an interaction term is introduced between pre-crisis risk rating and the increase in risk during the crisis period (with controls including pre-crisis lending volume, pre-crisis fiscal deficit, and donor fixed effects), whereas on average other donors in aggregate increased lending, especially to those countries whose risk increased but whose pre-crisis risk was average, no such pattern was evident for the Bank. Moreover, for countries with moderate increases in risk during the crisis period, those whose pre-crisis risk was higher received more incremental other donor lending. By contrast, Bank lending declined for countries that had moderate increases in risk during the crisis period and whose pre-crisis risk was higher.
52. However, if precautionary signaling was the main objective, lending should have been concentrated in the period when uncertainty was at its highest at the end of 2009.
53. This section focuses on IBRD lending terms and does not review the Bank's operational crisis facilities, such as the Vulnerability Financing Facility, the Global Food Crisis Response Program, or the Rapid Social Response Program.
54. ADB and AfDB had maturities of 25 and 20 years; IDB had maturities of 12–25 years, depending on the product; and EBRD 5–15 years.
55. On fixed-spread loans, the average and final maturities varied from 10.25–14.25 over 25 years; variable spread loans carried a grace period of 3–5 years and final maturity of 15–20 years.
56. Given that borrowers have the flexibility to tailor repayment terms, subject to average repayment maturity limits, it is rele-

vant also to look at averages of “average repayment maturities” (last two columns in the table below), that is, maturities based on actual disbursements as these determine the Bank’s capital usage over time. Although these averages are somewhat lower in any given year, patterns over time are broadly similar. The average loan maturity of other MDBs loans was estimated at about 12 years.

57. Because grace periods and maturities in individual loans are linked, to ensure a given average maturity per loan, these calculations are only indicative.
58. There is a possibility that some shareholders may have viewed share price increases as opportunistic and inconsistent with the Bank’s countercyclical role. Because of its large IDA transfers, the Bank’s borrowing members do not necessarily view higher pricing as increasing future lending capacity (for example, in contrast to IDB). Ultimately, pricing decisions are part of a larger package of possible instruments to address IBRD’s lending capacity (income transfers to IDA and a capital increase being the other main instruments). The eventual package of measures to address financial capacity included a cap on real income transfers to IDA at current levels.
59. Guidelines also undertook to make appropriate revisions to the operational policy on Development Policy Lending (OP and BP 8.60), financial terms and conditions of IBRD loans (OP 3.10), and guarantees (OP 14.25).
60. Latvia and Hungary had both graduated from the Bank just before the crisis but sought bank support during the crisis.
61. In many ways the FCL replaces the IMF’s Contingent Credit Line, which had been introduced in 1999 following the East Asia Crisis, but it had never been used and was allowed to expire at the end of 2003.
62. Normal cumulative access was doubled from 300 percent to 600 percent of quota.
63. See <http://www.imf.org/external/np/exr/facts/sba.htm>.
64. The PCL has now been substituted with the Precautionary Liquidity Line, which is subject to the same charges, surcharges, commitment fees, and repurchase period (3¼–5 years) as the FCL and Stand-By Arrangements. If funding needs do not materialize, countries pay only a commitment fee which increases with the level of access available over a 12-month period, effectively ranging between 24 and 27 basis points for access between 500 and 1000 percent of quota. See <http://www.imf.org/external/np/exr/facts/pll.htm>.
65. The basic approach to loan pricing is similar to IBRD, with a spread over LIBOR, adjusted for funding costs. IDB uses three-month LIBOR reset four times a year in January, April, July, and October. Loan maturities are up to 20 years for adjustment (policy-based) loans and 25 years for investment loans. Thus, in early 2009, there was a lower three-month LIBOR benchmark (compared with six-month LIBOR for IBRD), but a maximum maturity of 20 years (compared to an average maturity of around 22 years at IBRD).
66. IDB’s losses during 2008–10 stemmed not from new crisis operations but from a market-to-market loss on \$2 billion of investments. However, these were not sold, and values have now

recovered considerably. Currently IDB estimates, an eventual recovery of up to 80 percent of their value.

67. IDB’s Emergency Lending Program approved in 1998, following the East Asia Crisis.
68. Similar to IDA, ADB also approved an additional amount of \$400 million for its lower-income clients, with front-loading.
69. It could be argued that comparisons of IMF rates with IBRD FSL may be more appropriate, given the IMF’s fixed spreads on their loans; however, the comparison here is with the most widely used products of each institution during the time of the crisis. Conversely, there are longer repayment periods available on IBRD loans and slower amortization, which would further increase their attractiveness; besides, loans in SDR carry cross-currency risk.
70. Borrowers arguably may also consider that the more cooperative-like characteristics of IDB pricing rates on their outstanding loans also have some potential for coming down in the future.
71. As perceived by investors, whose reviews are based on a fair value or reported basis, IBRD finished FY10 with a net loss of \$1,077 million.
72. An equity duration extension program has enabled the Bank to maintain income by entering into interest rate swaps that enable the Bank to receive fixed rate payment and pay floating rate payment. The 10-year ladder repricing profile was set up with the objective of reducing the sensitivity of its allocable net income to market interest rate fluctuations. It resulted in an equity duration extension to approximately 4.5 years, compared with one year just before the crisis. In FY09 the duration impact of \$236 million accounted for almost half of IBRD allocable net income of \$500 million; in FY10 and FY11, the duration impact (\$994 and \$1,139 million) was the main factor underlying positive allocable net income (of \$764 and \$996 million respectively). (Part of the Bank’s overall income decline in FY09 and FY10 was also due to the absence, in FY09, of the large positive releases in loan loss provisioning of the preceding years).
73. Higher prices alone do not automatically translate into higher lending headroom in the near term. Increases or decreases in loan pricing flow through to reserves only gradually, and that is also subject to decisions on income transfers. Net lending spread income did not suffer large declines in FY09–10, but this was partly because of increased lending volume.
74. Loan loss provisions as a proportion of the portfolio fell to 1.3 percent in FY10, compared with 1.5 percent in FY09, although the absolute amount of loan loss provisions increased.
75. India, Mexico, Brazil, Indonesia, and Turkey constituted the top five crisis-period borrowers; the next five countries are China, South Africa, Egypt, Kazakhstan, and Vietnam.
76. Brazil, China, India, Mexico, and Russia.

Chapter 3

1. Defined to include only those where the following criteria applied: There was a reference to the crisis in project objectives; project amounts were increased relative to the CAS or through

- additional financing; loan preparation was accelerated; or the project was outside the envisaged CAS. This reduces operations with crisis content to 77. Further and stricter filters were also applied in sensitivity analysis to see if findings would be affected; for example, loans with a financial sector content exceeding some threshold, loans that have specific financial sector-related components, and other criteria. The definition used in the chapter is consistent with that used elsewhere in the study.
2. Five operations, although not programmatic, took the form of multiple-tranche DPLs, a form favored under adjustment lending but less common in recent years, since the new DPL guidelines of 2004.
 3. On a scale of 4 (highest) to 1 (lowest).
 4. AAA with any financial sector content.
 5. This is not because of intraregional differences in the scale of lending. Ratios of regional AAA, compared with their lending programs, are similar Bank-wide and have been broadly stable between 2002 and 2008, with a slight decline in the crisis years.
 6. Although there are tensions between financial risk and financial access considerations, as evident during the global crisis and as noted in the draft FPD financial sector strategy (October 2009), especially with regard to practices relating to rapid credit growth, increased access can in some cases reinforce market transparency (for example, through bringing economic agents into the formal economy).
 7. The FSAP was initiated following the crises of the late 1990s and has been a joint exercise of the World Bank and IMF, except for the developed countries, which are handled by the IMF alone. FSAPs are designed to assess countries' financial sector vulnerabilities and developmental needs and to propose remedial action. With 125 FSAPs (including 3 regional FSAPs) and 48 FSAP Updates completed as of end of June 2009, the program has covered close to two-thirds of the Bank and Fund's membership at the rate of roughly 18 per year. For a more comprehensive review of the experience with FSAPs, see Promisel (2009) and World Bank/International Monetary Fund (2009).
 8. Armenia, Colombia, Croatia, Egypt, Guatemala, Hungary, Latvia, Mexico, Moldova, Turkey, Ukraine, and Uruguay.
 9. "While the crisis has illustrated that the FSAP can play only a limited role as an early warning instrument, it has also shown the advantage of systemic and holistic reviews of countries' financial sectors while, at the same time, extending the coverage to crisis management and macro-prudential frameworks" (IMF and World Bank 2009).
 10. The Financial Sector Reform and Strengthening Initiative fund, set up for FSAP implementation, indicates, however, that there have been only a dozen programs of comprehensive FSAP implementation, although around half of the 370 projects funded by the Initiative have been FSAP related.
 11. The adoption of FSAP recommendations has not been uniform; the Latvian authorities, for example, felt the FSAP was far too alarmist and did not implement the recommendations in a timely manner (IMF and World Bank 2009).
 12. It is important to note, however, that in 2007, the FPD anchor had limited capacity to deliver crisis simulations and contingency planning exercises. In addition, countries are often reluctant to invest scarce resources in crisis preparedness unless they face a high probability of a crisis.
 13. Eighteen projects had been initiated as of September 2011.
 14. Ranks are sensitive to the specific indicators used, and covariance is often low. Indicators are also sensitive to the periods compared. The grouping here is therefore broad and is based on a triangulation of information from different stress measures in combination with the findings of the in-depth analysis based on 18 country case studies.
 15. The Zoos bank, one of three recipients of an IDA credit line, also became insolvent and was put under receivership.
 16. However, in its letter supporting the Bank DPL, which was approved in July 2009, the IMF cautioned that "poor transparency and disclosure on the part of the banks tends to preclude a full understanding of the quality of their assets."
 17. GDP growth declined by 14 percentage points from 7.8 percent in 2008 to -6 percent in 2009.
 18. Although in Ukraine Bank support to the financial sector first began under the multisector Third Development Policy Loan (\$500 million, November 2008).
 19. Although initially Moldova's financial sector was included as a third of the operation, it was not eventually covered in the Bank's DPL, as it was not the cause, or principal victim, of the crisis, despite one bank's failure, and it was believed that overall conditionality was adequate. Rather, the Bank's response in the financial sector has been to provide extensive AAA and funding through two lines of credit to extend short- and long-term capital. Although it is true that the financial system did not need to be an area of focus, it is arguable that the transfer of support to lines of credit that are slow disbursing may not have best served the needs of the crisis.
 20. Even adding both phases of the programmatic financial sector operation (\$400 million and \$350 million) to the preceding multisector Third DPL (\$500 million).
 21. Though large compared to its previous engagements, the Bank's contribution of €400 million in two policy operations, including €200 million for the financial sector, was small compared with an overall package of €7.5 billion, including an IMF Stand-By Arrangement approved in December 2008 for €1.7 billion. The entire policy reform package for Hungary amounted to €19.8 billion, of which the Fund committed €12.3 billion and the EU €6.5 billion. The Bank's share of the total, at \$1.4 billion, was around 5 percent.
 22. Mongolia received an IDA credit of \$40 million (and a total program of around \$64 million in 2010). This compared to an IMF Stand-By Arrangement of \$300 million. There was also substantial support from other sources, including the EBRD (which in 2010 alone provided €185 million to Mongolia) and ADB (which provided \$74–\$98 million annually from 2008 to 2010).
 23. Grenada received a \$4.5 million-equivalent loan and \$3.5 million-equivalent credit, totaling around SDR 5 million; this

was sizable compared to the SDR 14.8 disbursed by the IMF between July 2008 and April 2010 under its Poverty Reduction and Growth Facility/Extended Credit Facility programs.

24. AfDB also provided \$250 million (aggregate support) in 2009, of which \$50 million was in one crisis-related loan to a bank.
25. In Hungary, one reason for delay was that because it had graduated from IBRD (as had Latvia), and in the absence of a Bank policy for loans to graduates, the loan was delayed while appropriate IBRD lending terms were determined. Eventually both loans to Hungary and Latvia were offered at Special Development Policy Loan terms, of a minimum fixed spread over LIBOR of 200 basis points; a front-end fee of 100 basis points, and a maturity of up to 10 years, compared with LIBOR plus 70 basis points for regular IBRD lending of a comparable maturity. Lateness, and Hungary's renewed access to markets, was likely compounded by the less attractive terms, compared with standard IBRD lending, and Hungary did not eventually draw its loan. This suggests that market-based pricing in crises must be backed by timely delivery.
26. November 2008. This operation that had been largely prepared before the crisis to improve the investment climate and create fiscal space through strengthened public finances
27. The Fund opened separate accounts for the Central Bank (\$6 million) and the government (\$4.5 billion) in its Stand-By Arrangement tranches.
28. They included the preparation of an action plan for the restructuring of Anod Bank, as well as the issuing of a decree for the establishment of a daily monitoring system for bank liquidity and the establishment of a crisis management and risk monitoring task force. Implementation of the restructuring, or addressing underlying major weaknesses in the bank supervision system, diagnosed in Mongolia's 2009 FSAP, was not included.
29. Other financial sector prior conditions were aimed at more general actions to improve stability and financial access in the medium term: unification of the financial year for financial institutions, adopting International Financial Reporting Standards, introducing consolidated supervision, and regulations for setting up private credit registries.
30. See, for example, Baer and Caprio's "Bank Recapitalization—If and When" (1995), which discusses the inadvisability of injecting liquidity too early in a bank crisis.
31. The FIRST grant, at the request of the Central Bank, supported Nigeria's Financial System Strategy 2020. However, the strategy, and the Bank's support, focused on nonbank areas: capital markets, insurance, pensions, housing finance and social housing, access to finance (SMEs, microfinance), and legal issues related to credit: creditor rights, corporate insolvency and the banking sector.
32. GDP in Turkey had grown at the robust average rate of 6.7 percent in previous years, but it grew only 0.7 percent in 2008, and fell by 4.7 percent in 2009—but grew to 8.9 percent in 2010. In Mexico, the collapse of external demand resulted in an aggregate output decline of nearly 9 percent between the fourth quarter of 2008 and the first quarter of 2009 alone, and the loss of half a million jobs—growth resumed to 5.5 percent in 2010.
33. This figure is based on a peak to trough calculation using monthly data from Bloomberg. The pre-crisis peak was in October 2007 (57.165), and the crisis trough was in February 2009 (24.026).
34. A third operation in the financial sector during this period was a \$50 million investment loan that was not crisis related.
35. Turkey also received a Private Sector Renewable Energy and Energy Efficiency Project (\$500 million equivalent).
36. This function, which was adopted by many central banks in the crisis following the practices of the U.S. Federal Reserve, makes the central bank the "market maker" in the interbank market. The central bank receives short-term liquidity from banks with excess liquidity and makes loans to banks without liquidity. In this way, the central bank absorbs the risk of lending to the borrowing bank. It was financed by a fund that at its peak it held around \$1 billion, although it has since been largely liquidated.
37. See, for example, de la Torre and Ize (2010) and the Latin America and the Caribbean outlook reports produced for the 2008 Annual Meetings and for the 2009 Spring and Annual Meetings. See also the series LCR Crisis Briefs (<http://go.worldbank.org/2IWP6MH20>).
38. A low-income housing strategy technical assistance component of \$7.5 million was added.
39. In Colombia, GDP contracted in the last quarter of 2008, and growth for the year stood at 2.7 percent—still positive, although a third of the growth rate in the preceding year. Guatemala's growth also remained positive, although it declined from 6.3 percent in 2007 to 3.3 percent in 2008 and 0.5 percent in 2009. Egypt had a smaller real GDP decline; less than 5 percent in FY09 compared with more than 7 percent in FY08. In India, growth slowed from a peak of 9.7 percent in the two preceding years to around 5–6 percent in late 2008.
40. In Guatemala, for example, exports, remittances, and capital inflows, particularly foreign direct investment, slowed sharply and the fiscal deficit worsened from about 1.5 percent to 3.1 percent of GDP in 2009. In Egypt, foreign direct investment and portfolio investment outflow was relatively rapid during the first half of FY09 (4 percent of GDP), but eased in the second half. Official international reserves declined by 10 percent, and there was also a significant loss of central bank foreign currency deposits. Fiscal and monetary stimulus measures resulted in a significant increase in the budget deficit.
41. After a reduction between September and November 2008, credit growth in Uruguay largely recovered. Local enterprises were not severely affected, because they typically finance themselves from internal funds, followed by domestically provided suppliers' credits and bank lending.
42. The Moroccan banking sector was not directly affected by the global financial crisis, but the economy suffered from the retrenchment of capital flows and the decline of receipts from exports, tourism, and remittances. The authorities adopted a stimulus package to help the most-affected sectors. This resulted

in a sharp deterioration of public finances from an annual surplus to a deficit of more than 4 percent.

43. In Colombia, reforms made after the 1999 crisis had resulted in a substantial consolidation of private banks and the privatization of the largest public banks. Supervision and regulation had been revamped and the banks were well capitalized (with an average capital adequacy ratio of 13.8, well above the 9 percent regulatory minimum) and very profitable. The financial crisis caused deterioration in the banks' credit portfolios, but profitability remained strong in 2008 and in 2009. However, capital ratios include goodwill, and it was felt that the loss absorption capacity of Colombian banks' capital buffers was lower than that of regional peers. Guatemala's financial system proved very resilient to the global crisis, also reflecting strong prior support from the Bank through a comprehensive program of diagnostics, via FSAPs, Financial Sector Adjustment Loans, and technical assistance. Uruguay's banks were also resilient to situations of distress because of the regulatory reforms and consolidation of the system that had occurred after the 2002 crisis, when most weak banks went bankrupt or were absorbed.
44. Colombia, for example, had fraudulent pyramid schemes under sophisticated structures.
45. Colombia also had support from other sources. Bank resources were small compared with the \$2.4 billion that the government had indicated that it had planned to obtain from the multilaterals during 2009 and also compared with the \$10.5 billion IMF precautionary flexible credit line.
46. At the time of the loan's concept review meeting, the government's request for a higher loan amount was discussed.
47. As confirmed by recent stress testing exercises (July 2011).
48. By the end of 2010, the capital adequacy ratio of credit institutions stood at 15 percent, above the baseline of 13.4 percent at the end of 2008, and no credit institution had experienced losses during the period 2006–09.
49. It was agreed with the government that, because of the elections, the DPL results framework would only go up to 2009, which made it impossible to include the results of the new bankruptcy law implementation.
50. Domestic bank credit as a ratio to GDP increased from 29 percent in 2000 to 54.5 percent in 2008. Credit growth remained significantly positive at 17.3 percent per year.
51. Foreign debt amounted to 18.8 percent of GDP, compared to a middle-income country average of 24.8 percent, and foreign reserves in May 2008 were equivalent to 12 months of imports.
52. At the end of March 2009, the capital to risk-weighted assets ratio for the banking sector stood at 13.2 percent, above the regulatory requirement of 9 percent; all banks had a capital ratio of 10 percent or more, nonperforming assets were low and increased only marginally from September 2008.
53. India became the largest single borrower from the Bank and IDA in FY10. In total the Bank committed \$11.5 billion to India in FY09–10, of which almost half was in the form of financial sector lending. The largest among these was the programmatic DPL for \$3 billion, \$2 billion in the first tranche and \$1 billion in the second. The second tranche was dropped in mid-2010, when recovery accelerated. Coded as 50 percent in the financial sector, there were no conditions related to the fiscal side of the operation.
54. To 8 percent tier 1 and 12 percent overall, as opposed to previous norms of 4.5 percent tier 1 and 9 percent overall.
55. The government described the capital infusion as a means of allowing the banks to raise their share to at least 58 percent, to enable the banks to have later recourse to markets if needed. According to a Moody's affiliate local credit rating agency, there was no question that the banks would have received capital from the government in one way or another; the strength of the ratings of the public sector banks reflect this expectation.
56. Total Bank support to India in this period was \$11.5 billion. By way of comparison, the international community provided a package of crisis support to Hungary of \$25 billion, even though the Hungarian economy is less than one-seventh the size of India's. Had India experienced a real liquidity or fiscal crisis, Bank resources would not have been adequate. The Central Bank of India had tools to manage the crisis effects (monetary easing through liquidity windows, interest rate cuts, and regulatory forbearance) and noted an unclear rationale for the loan.
57. See Demirgüç-Kunt and Detragiache (2009). See also Demirgüç-Kunt, Defragiache, and Tressel (2006). The paper suggests a less-than-expected relation between a country's ratings on the Basel Core Principles and bank soundness, bank risk, or country risk.
58. Some were outside the spectrum of crisis response (for example, the housing finance FIL to Tanzania).
59. The SME loan to India, which pointed out that "the year-on-year growth rate of bank credit to SMEs fell from 35.6 percent in 2007 to 7.4 percent in 2008, even while the overall year-on-year growth rate of bank credit to industry (including large corporations) increased from 24.9 percent to 30.2 percent over the same period." In Turkey, "lending to SMEs...actually dropped in relative terms...and at TL 80 billion accounted for less than 22 percent of total lending, compared to almost 24 percent at end-2008."
60. According to the program document, the crisis increased the need for infrastructure investment from an employment perspective.
61. The Bangladesh Investment Promotion and Financing Additional Financing, also to finance infrastructure projects, was made after the initial project allocation of \$50 million was successfully disbursed two years before the project closing date. Thus, it falls within the criteria for crisis-related projects used for this evaluation, although it may be pointed out that the extension of the project was already under consideration prior to the crisis. The China Second Energy Efficiency FIL is a follow-up to a project funded by IBRD and the Global Environment Facility, which had already started energy efficiency lending in two Chinese banks. This loan is not crisis related, but a response to the government's interest in scaling up ener-

- gy efficiency investments, to achieve the energy conservation target for 2006–10 and beyond. Finally, the Tanzania Housing Finance Project is clearly not crisis related, and the Project Appraisal Document does not try to justify the operation as a response to the crisis.
62. The real outlier is the FIL for Tanzania that took 45 weeks between approval and effectiveness; however, this was not in any way a crisis-related operation. The India Scaling up Microfinance operation too, came toward the end of the period examined and is not considered a crisis-related operation by the regional vice presidency.
 63. According to the project team, by August 2011 (albeit three years after the start of the crisis), the line of credit had substantially disbursed to some 2,300 SMEs. Some increase in SME contributions to GDP have also been pointed out, from 41.7 percent in 2009 to about 43 percent as of the end of 2010.
 64. The project team points out that slow initial disbursement of the Armenia SME FIL was also because the parallel functioning of a credit line facility established under a Russian loan to Armenia that had simpler procedures.
 65. A number of modifications to the original loan had already been introduced in 2007, compared with its design in 2006, to aid disbursement, permitting direct lending by one of the participating apex institutions (instead of through PFIs), easing geographic restrictions, and providing a currency mix for the loan.
 66. Turkey was able to include three new financial institutions in its third SME credit line toward the end of this period, this time designed as an entirely new operation. Offtake has been slower than in the additional financing projects. Relative inexperience is a factor.
 67. On-lending in foreign exchange to domestic SMEs changes the risks for the intermediary, which passes on the currency risk but increases its exposure to credit risk (if the borrower does not have a hedge). And final borrowers must bear the currency risk. However, to the extent that markets provide opportunities for a hedge for such loans, if there is convertibility, and given that intermediary banks make adequate risk assessments for credit risk, there are circumstances where on-lending in foreign exchange could be acceptable, even to domestic SMEs.
 68. The SME lines of Egypt and Bosnia, India's IIFCL for public private partnerships in infrastructure, and the line of credit to Bangladesh (\$257 million).
 69. IIFCL also points to its ceiling in participation (20 percent) and its typically back-end requests for participation, after project design is agreed, and maintains it has little voice, as a result, in terms of enforcing Bank standards. IFC India, however, points out that ceilings in participation are standard prudent practice; IFC also has a ceiling of 25 percent. It concedes, however, that IFC application of safeguards may in practice afford clients greater flexibilities in their application.
 70. One exception is the Moldova Rural Investment additional finance, which suggests that lines of credit outside the financial sector need closer monitoring.
 71. There were various reasons why the DPL to Armenia may have been limited in size relative to country demand. For one, relative to country size it was a large amount. Armenia's incipient move to IBRD status and the availability of funds from other donors, including Russia, the IMF, and others were also factors.
 72. In Armenia, there had been loans to 1,300 subborrowers by March 2011; in Turkey, Halkbank provided loans to 619 SMEs, and the Industrial Development Bank of Turkey has provided loans to 52 SMEs, under the original loan and the additional financings (significant, although small, compared with the more than 200,000 firms in Turkey with fewer than 250 workers). In India, the SME loan had supported 2,255 new SMEs by September 2010, according to the project's Implementation Status Report.
 73. Examples of apex arrangements with private financial institutions include the Armenia Access to Finance for SMEs FIL, the Bosnia and Herzegovina Enhancing SME Access to Finance FIL, the Croatia Export Finance Intermediation FIL, the two Moldova FILs, and the Egypt Enhancing Access to Finance for SMEs FIL. By contrast, the two additional financings for the Turkey Access to Finance for SMEs project are intermediated through a state bank, Halkbank, and disbursed directly to final borrowers. Two components of the Turkey Second Access to Finance for SMEs are also intermediated by two government-owned first-tier banks: Ziraat Bank and Vakıf Bank, and both banks provide credit directly to SMEs. The third component is intermediated by Kalkınma Bank which on-lends to PFIs. In India's SME Finance and Development FIL, the borrower and PFI is the Small Industries Development Bank of India.
 74. Despite this principle, such well-performing banks have raised funds from other donors too, for example, the EIB (for Halkbank) and the U.K. Department for International Development at the Small Industries Development Bank of India.
 75. At the time of the original operation, while IBRD itself was attractive, especially when considering the tenure, once the guarantee fee and Small Industries Development Bank of India's spread were added, the price offered to banks was, on balance, not considered attractive enough. In the additional financing project, IBRD itself was at a lower cost than it was earlier, whereas market interest rates, in terms of costs of alternatives, had moved in the opposite direction.

Chapter 4

1. The historical average of IFC's financial sector investments between FY05–07 was 46 percent.
2. IFC investment projects refer to all the investment projects under the special initiatives, with the exception of the Global Trade Finance Program and the Global Trade Liquidity Program, which were not reviewed individually.
3. IEG recognizes that the criteria used are relatively broad. However, IEG determined that rigid evaluation techniques will run the risk that the evaluation will not cover all dimensions of the project. It was determined desirable to use judgment in the

evaluation and interpretation of the evidence rather than using a rigid checklist.

4. Proposed Increase and Modification of Investment in Global Trade Finance Program (GTFP IV) to Provide Emergency Relief in Response to the Global Financial Crisis.
5. In the absence of detailed monitoring and evaluation data, SME's participation is estimated through the share of transactions lower than \$1 million.
6. IFC, Canada, AfDB, U.K. Department for International Development, Saudifund, the Netherlands, CDC (the U.K. government's Development Finance Institution), Japan Bank for International Cooperation, and Swedish International Development Cooperation Agency.
7. The funding went to global banks—Citibank, Commerzbank, Rabobank, Standard Chartered, JP Morgan Chase, and Standard Bank—with an extensive presence in trade finance in the developing world and reached approximately 520 banks in emerging markets.
8. The Bank Recapitalization Fund invested in Ahli United Bank after the evaluation was completed, so it is not included in the sample. Ahli United Bank was committed on March 31, 2011, and funded in full (\$290 million) on April 19.
9. In Central and Eastern Europe, most almost all nonconsumer loans are collateralized and IFRS allows nonperforming loans to be valued at 75 percent of collateral value. This leaves banks considerable room to maneuver in reserving for nonperforming loans, relieving pressure on capital and the need to sell. The regulators are not forcing sales. Nearly all banks prefer to sit on the nonperforming loan, as they have liquidity, and not do new lending.
10. Proparco is a subsidiary of the French Development Agency dedicated to financing the private sector.
11. The Debt Pool's committed projects as of February 28, 2011, are SA Taxi (South Africa); INA (Croatia); Vinca-Ackruti (India); Cai Mep Port (Vietnam); Tema Osonor Plant (Ghana); Calidda (Peru); Cai Lan Port (Vietnam); and Zain Iraq (Iraq). Of these eight projects, IFC cofinanced Cai Mep Port (Project ID: 25455), Calidda (Project ID: 28031), Cai Lan Port (Project ID: 29521), and Zain Iraq (Project ID: 29002).
12. About \$4.0 billion was mobilized, including an estimated \$3.3 billion in cofinancing facilities. However, cofinancing is fundamentally different from mobilization.
13. A2F Advisory Services are a core component of IFC Advisory Services. A2F has grown rapidly, with 241 projects in 66 countries, commitments of more than \$348 million, and deliveries of \$70 million annually in FY09. Its three pillars include micro/retail, SME/business, and financial infrastructure. Emerging products include collateral registries, housing finance, sustainability finance, and energy efficiency.
14. The Debt and Asset Recovery Program is an IFC investment initiative that aims to reduce the level of distressed assets in the financial systems of IFC member countries, whereby IFC takes equity and debt positions in distressed asset pools and invests in servicing platforms.
15. These measures tend to track developments in the real economy during times of economic crisis when financial strain handicaps consumption, investment, and in many cases government spending, which limits GDP and employment growth.
16. IFC indicated that using the most recent projections, about \$1.0–\$1.2 billion of IFC earnings would be available for all designation for FY11–13.
17. IFC has large exposures in Russia, Ukraine, and more generally Europe, as well as in Argentina, Brazil, India, Mexico, and Turkey. IFC's portfolio is large compared with the size of the economy in Nigeria. By sector, IFC's portfolio has large exposures in the financial sector (more than 40 percent of portfolio by committed exposure, mainly in the banking sector); trade and housing finance is growing, but the nonbanking sector is small. IFC's largest clients are mostly in the financial sector, such as RZB (Eastern Europe), \$434 million; MDM Bank (Russia), \$284 million; Finansbank (Turkey), \$275 million; Ahli United Bank (Middle East and North Africa), \$216 million; and Su Casita (Mexico), \$202 million.
18. Since 2005, 42 regional meetings (six rounds for each region) have been held covering all projects with credit risk ratings of 4 or higher.
19. Commitments under the Joint IFI Action Plan were expressed in euro over calendar years 2009–10 and, for MIGA, in gross guarantee terms. MIGA's commitment was €2 billion gross in 2009–10 (EBRD, EIB, World Bank Group). Under the FSI, MIGA's commitment was limited to \$1 billion in net guarantee terms.
20. At the time of the announcement of the FSI (March 2009), MIGA had already in FY09 written guarantees in relation to financial institutions in Europe and Central Asia of \$288 million. In this report, these guarantees are counted as part of MIGA's crisis response.
21. The precise criteria adopted in this section for counting a guarantee project as part of MIGA's crisis response are as follows. First, in accordance with the FSI, that the guarantee project supported a cross-border investment by a financial institution into a subsidiary located in a developing host country. Second, that the host country was affected by the crisis and that the underlying purpose of the guarantee project was crisis-related. Third, that the guarantee project became effective in FY09–10 or the first half of FY11. The reason for including that half of the year is that the Joint IFI Action Plan extended to the end of calendar 2010. Because the review period for this report as a whole is FY09–10, disaggregated data are also cited to cover that period.
22. The methodology of the calculations is as follows. All new insurance business (guarantee volume, gross) is included, in respect of developing countries as host countries. Only investment insurance is included; that is, trade coverage, which MIGA does not write, is excluded. Data are arranged by calendar years, because Berne Union data is made available on a calendar year basis.
23. Market underwriting capacity at longer tenors is much lower than at shorter tenors and was especially valued during the crisis. At shorter-dated tenors, for example, three years, avail-

able market capacity was remarkably resilient, standing at about the same level at mid-2010 as it did at mid-2008 (Galagher London 2010). The availability of reinsurance was also resilient.

24. In more precise technical terms, economic capital is MIGA's estimated value at risk embodied by its outstanding portfolio of guarantees. It measures the required capital to absorb a probable worst case of the risks in the current outstanding portfolio, based on a risk model of potential guarantee claims.
25. In part this concentration was due to the epicenter of the financial crisis being located in Europe and Central Asia, where certain banks predominate.
26. Strategic relevance is one dimension of MIGA's institutional effectiveness, the others being role and contribution, and assessment, underwriting, and monitoring. This evaluation remains to some extent a real-time evaluation, and cannot undertake a comprehensive ex post evaluation of all these factors.
27. As indicated by central bank data and IMF program reviews. A note of caution: some observers argue that the level of non-performing loans in the most severely affected countries has not yet fully recognized the extent of problem loans.
28. For example, MIGA could more actively manage its guarantee portfolio in respect of cancellations, reinsurance, and profitability.

Chapter 5

1. The four priorities set were: protecting the poor, stabilizing the financial and private sectors, managing fiscal challenges, and securing long-term development (World Bank 2008b).
2. In parallel with DPOs, in FY09–10 the Bank approved 87 investment loans with some fiscal management content, for a total commitment of \$6.95 billion. As investment loans are disbursed over a longer period than DPOs, depending on the implementation schedule of their components, these projects were not included in the set of crisis-related operations IEG reviewed for this evaluation. Often, however, activities supported by investment loans are complementary to the reforms supported by the Bank's DPOs and are thus expected to reinforce these reforms in the long run.
3. Of 117 borrowing countries from the Bank/IDA during this period.
4. The following 10 countries were beneficiaries of both crisis response and regular DPOs: Benin, Brazil, Guinea-Bissau, Haiti, Malawi, Mali, Rwanda, Togo, Serbia, and Vietnam.
5. See chapter 2. The Special Development Policy Loan option is open, on an exceptional basis, to IBRD-eligible countries that face a crisis; it is meant to facilitate World Bank participation in international support packages to such countries. The presence of a disbursing IMF-supported program is a requirement for the preparation of a Special Development Policy Loan. The financial terms of the Special Development Policy Loan option reflect the countercyclical support purpose of this instrument, as the loan maturity (5–10 years) is shorter and the interest rate higher (200 basis points over LIBOR), compared with standard IBRD lending terms. The loan to Hungary, though not a Special Development Policy Loan, was extended on terms that were the same as those later reflected in the new Special Development Policy Loan policy that was subsequently approved.
6. This reflects a World Bank decision in July 2009 that, within the constraints of the Bank's risk capital allocation, regular DPLs and DPL-DDOs would be more suitable for crisis response, while Special Development Policy Loans would continue to be limited to Bank participation in international support packages (World Bank 2009).
7. Other indicators are also relevant, such as sovereign debt interest rate spreads (EMBI spreads), which measure constraints on the financing of countries with capital market access. However, these indicators are available only for IBRD client countries with market access, which represent 28 of the 48 client countries that were recipients of DPOs with a focus on fiscal management.
8. Japan, Australia, and the ADB were major providers of cofinancing or parallel financing in crisis-hit countries in the East Asia and Pacific and South Asia Regions. Other donors were Denmark, AFD, CDB, CIDA, DFID, EU, Ireland, KfW, Netherlands, New Zealand, Switzerland, UNDP, and USAID.
9. The methodology for the review of the 67 crisis response DPOs with fiscal management focus and the criteria for the selection of case studies for in-depth review are presented in appendix E, section 2.
10. To some extent, however, the PRSC-8 (and the follow-up PSRC-9) included structural reforms that may enhance the country's resilience to future crises, such as reinforcement of the autonomy of the central bank, consolidated management of domestic and external debt, and regulations to improve bank supervision.
11. Examples of countries where the Bank, in parallel to DPOs with fiscal content, provided crisis-related assistance for social protection through investment lending include Mexico, with the 2009 support to the Oportunidades project (\$1,503.8 million) and the 2010 Social Protection in Health Project (\$1,250 million); Ghana, with the 2010 Social Opportunities Project (\$88 million); and Guatemala, with the 2010 Expanding Opportunities to Vulnerable Groups Project (\$114.5 million).
12. The loan could only be drawn if market interest rates passed certain thresholds. One flaw in this design was that the thresholds were set based on past nominal interest rates or yields, not on the spreads. These thresholds were roughly 13 percent for domestic borrowing and 8.9 percent for international borrowing (for 10-year maturities, slightly different for other maturities). They were calculated as one standard deviation above the average rate in 2006–09. Although actual rates had been at or above these levels before the approval of the DPL-DDO, they quickly dropped and remained well below these levels during the entire time span of the operation's effectiveness. A more flexible design could have been based either on some moving average of interest rates or on the spread in interest rates over LIBOR.

13. Three of the 48 client countries (Central African Republic, Guinea-Bissau, and Togo) benefited from debt relief as part of the Highly Indebted Poor Country process during the global crisis. These countries are not included in figure 5.5. Lesotho is also excluded because of the atypical decline in public debt ratio and increase in fiscal deficit.
14. The cyclically adjusted general government balance in 2011, as reported in the IMF Fiscal Monitor (September 2011) exceeded the 2008 level in Brazil, Indonesia, Mexico, Peru, and Poland—all large recipients of Bank crisis-response DPOs with focus on fiscal management.
8. The literature has not shown any evidence that the financial crisis disproportionately affected the poorest more than the middle class or near-poor. The World Bank (2010a) finds no significant impact on the aggregate inequality index in any country under review. Rather, it finds that the crisis had large impact on the middle class because of the loss in remittance incomes. Ravallion (2008) also argues both the poor and the middle class are affected by economic shocks. Chen and Ravallion (2009) also assume equal distribution of effects of the crisis on the population on average when simulating poverty rates.
9. Although the poverty rate in El Salvador may have dropped from 39.9 to 37.8 percent between 2008 and 2009, it did not decrease by the same proportion as it increased from 2006 (30.7) and 2007 (34.6) to 2008.
10. This was found in case studies and also shown in Ferreira and Schady (2009).
11. In Indonesia, capital outflows were minimal compared with the situation during the Asian Financial Crisis, and timely government action alleviated liquidity constraints and maintained public spending on social programs. In Uruguay, economic growth benefitted from buoyant agricultural prices, and social policies of the government contributed to the decline in poverty and unemployment.
12. Crisis preparedness refers to the ability of the country's social protection system to respond flexibly to crisis.
13. Some 25 countries (40 percent of respondents) were qualified as "somewhat" prepared to respond to the crises, whereas only 10 countries (16 percent) were considered as prepared to a great extent in terms of having data and programs to respond.
14. Social protection schemes in Europe and Central Asia and Latin America and the Caribbean are structurally different. Countries in the latter region tend to have a few well-targeted programs that include CCTs, old-age protection, and labor market programs. Countries in Europe and Central Asia have a broader set of instruments that combine categorical and means-tested approaches that reflect their socialist inheritance. On average, population coverage is higher in Europe and Central Asia countries than in Latin America and the Caribbean, while targeting accuracy is higher in countries in the latter region. Based on a sample of Europe and Central Asia countries (Bosnia and Herzegovina, Bulgaria, Latvia, Poland, Moldova) and Latin America and the Caribbean countries (Brazil, El Salvador, Guatemala, Jamaica, Mexico, Uruguay), some 70 percent of the population in the former Region is covered by social protection programs, compared with 45 percent in that latter Region.
15. For instance, Bank analysis on Romania indicates that an increase in poverty during the crisis was prevented largely due to generous pensions payments received by 51 percent of households in 2009 (World Bank 2010b).
16. A new study by the World Bank's social protection anchor argues that many low- and middle-income countries used programs that protected against job loss even though the brunt of the labor market adjustment came in the form of earnings reductions (Robalino, Newhouse, and Rother, forthcoming).

Chapter 6

1. Using \$1.25 per day as the poverty line. In 2010 the number of additional poor may be as high as 73 million.
2. A study of three countries (Bangladesh, Mexico, and the Philippines) by the poverty group of the World Bank (2010a) found that the characteristics of the people who were affected by the financial crisis were different from those both of the chronically poor and from the general population. The "newly poor" were more skilled, more economically active, and more often urban dwellers. Another study (World Bank 2011a) finds that the crisis mainly affected male workers, as they were concentrated in affected industries, and young people, as they are less protected by labor protection laws.
3. Social protection is often defined as a collection of measures that includes social assistance, social investment and development funds, labor market interventions, and pensions and other insurance-type programs. The overall concept unifying these areas deals with improving or protecting human capital (Holzmann and Jorgensen 1999).
4. The countries for which in-depth country case studies were undertaken were Albania, Bosnia and Herzegovina, Brazil, Bulgaria, El Salvador, Guatemala, Indonesia, Jamaica, Latvia, Mexico, Moldova, Pakistan, Philippines, Poland, Uruguay, and Yemen.
5. A household survey in 12 Europe and Central Asia countries found that poor households reduced their expenditures on health care and food, with direct effects on human capital development (World Bank 2011b). Strong traditions of mandatory schooling in the Region kept children in school despite hardships, whereas in Jamaica and Guatemala, reductions in school attendance were observed during the crisis.
6. For example, in Jamaica the fiscal deficit increased to 7 percent of GDP because of a sharp reduction in revenues. In Latvia, the government was committed to a fiscal consolidation of close to 8 percent of GDP to handle the severe deficit situation.
7. The change in the GDP growth rate is the difference in the forecast versus the actual 2009 GDP growth rate. For private consumption, the pre-crisis data are an average of the years 2005–07 compared to the 2009 crisis year. Ideally, the severity of the crisis on households would also include measures of labor market outcomes and data on nonwage income. However, reliable cross-country data on these variables are not available for a large number of countries.

17. In Romania, poverty-targeted guaranteed minimum income covers only slightly more than 3 percent of the population (World Bank 2010b). In Latvia, the municipally managed guaranteed minimum income is even too small to be measured on a national level. Social assistance coverage in Bosnia and Herzegovina, Bulgaria, and Moldova are also small.
18. In Romania, generous pension benefits reach about half of the population. Pensions were important in protecting those affected by the crisis. The expansion resulted in large fiscal pressures, with spending on pensions escalating to 8.2 percent of GDP in 2009. Moldova's pension system absorbs 7.2 percent of GDP, and coverage is almost universal because of high labor force participation and full contribution coverage in the past planned economy times. In Bosnia and Herzegovina, veterans' benefits cost about 4 percent of GDP, whereas the civilian benefit system is severely underfunded with low coverage and poor targeting efficiency.
19. The absence of programs that can insure informal workers is also noted as a weakness of the social protection system in Latin America and the Caribbean (Ferreira and Schady 2009). National coverage (share of total population covered by at least one social protection program) is higher in Europe and Central Asia than in Latin America and the Caribbean. Based on information obtained through the case studies, average coverage is 68 percent in Bulgaria, Bosnia and Herzegovina, Latvia, and Poland; the equivalent number for Brazil, El Salvador, Guatemala, Mexico, and Uruguay is 46 percent.
20. Moreover, scaling up of safety net programs in response to a crisis may lead to fiscal sustainability difficulties, as these programs do not automatically contract during stable times.
21. In Brazil, the minimum wage was altered but not as a response of the crisis. However, the increase benefitted workers who received minimum wage, and the beneficiaries of programs whose benefits are linked to it.
22. Half of the loans were investment and technical assistance loans, and 40 percent were DPOs and 10 percent Emergency Recovery Loans. The portfolio includes 22 Additional Finance loans. All but three Additional Finance loans (in Mexico, Moldova, and West Bank and Gaza) followed projects that were approved before FY09. These three Additional Finance loans all did something new to the project and, hence, all Additional Finance loans are counted as freestanding projects.
23. The total amount of the 83 loans extended was \$25.6 billion. The total commitments (\$9.8 billion) for social protection crisis response were calculated by multiplying the total loan amount with the share of the project allocated for Social Protection crisis response. Most lending went to MICs (appendix G, figure G.3). The RSR monthly report as of December 31, 2010, states that \$11.8 billion has been allocated toward RSR crisis priority themes. However, close to \$2 billion of those funds were not yet effective as of December 31, 2010.
24. Projects with high social protection content are those with 50 percent or more of the theme codes allocated to social protection (29 percent of projects). Projects with medium social protection content are projects with 25–49 percent of the theme code allocated for social protection (26 percent of projects).
25. The share was calculated using a threshold cut-off between countries with high crisis severity and countries with moderate to low crisis severity. The analysis classifies the countries ranked in the top third using the severity index as countries with high crisis severity. Varying the threshold cut-off does not change the findings. Sensitivity analysis setting the threshold so that only the top 20 percent of countries are classified as high severity resulted in the share of social protection support to be reduced only slightly from 47 to 44 percent.
26. The average total loan amount of these operations was \$264 million.
27. The distribution is not sensitive to changes in the severity cut-off threshold.
28. For instance, in Latvia, the Bank provided two DPOs at €100 million each, whereas the overall envelope of IMF and EU support was €7.5 billion. The Bank's support was complementary to the support of the others. Similarly, EU support to Romania (€6.5 billion) and Hungary (€5 billion) was much larger than Bank social protection lending.
29. These consist of RSR, Japan Social Development Fund, and Global Food Response Program trust funds and include support also for the fuel and food crisis. RSR trust funds include the Multi-Donor Trust Fund, the Catalytic Fund, and the Contingency Fund. The Multi-Donor Trust Fund and the Catalytic Fund are exclusively available for IDA countries.
30. Based on data received from the Social Protection Team on March 3, 2011.
31. Sixteen of the countries that received GFRP, RSR, and Japan Social Development Fund trust funds did not have any previous lending for safety nets as defined in IEG's safety nets evaluation. The 15 new countries are listed in appendix table G.3.
32. The annual Social Protection South-South learning forum in 2011 will focus on building resilient safety nets in low-income countries, with particular focus on the food, fuel, financial, and climate change crises, which have recently affected vulnerable populations in many countries. In 2010, the South-South learning forum concentrated on public works programs that are common in low-income countries. Both events are held in Africa with predominant participation from clients from low-income countries.
33. Crisis transmission channels include the following: contractions in the income of poor and vulnerable households; increased unemployment; depletion of household assets and investments; and reduced fiscal space for the government to finance ongoing or new social protection or social safety net needs.
34. The household impacts were defined in four groups: contractions in the income of poor and vulnerable households; increased unemployment; depletion of household assets and investments; and reduced fiscal space for the government to finance ongoing or new social protection or social safety net needs.

35. DPOs accounted for slightly more of the lending (45 percent of operations totaling \$1.5 billion) in high crisis countries than in other countries (38 percent of operations totaling \$2.5 billion). There was no difference in the share of social protection content in operations incidence of operations to countries with high crisis severity compared to the rest. There was also no difference in the number of operations that aimed to address systemic shocks (such as economic crisis). This can largely be explained by the larger share of projects in low-income countries that aimed to mitigate food price issues and other exogenous climate shocks or conflict during the period (appendix table G.2). However, compared with before the crisis, the focus on helping households cope with systemic shocks has increased. During the crisis, the number of projects supporting safety nets that addressed systemic shocks (such as economic or climatic shocks) increased from 44 to 63 percent (appendix figure G.4).
36. Excluding Mexico, which borrowed more than \$1.5 billion during FY09–10, the number would drop to 500 percent, which is still very high.
37. The distribution is not sensitive to changes in the severity cut-off threshold. There was no difference in the incidence of operations supporting safety nets or other social insurance mechanisms by level of crisis severity.
38. Unfortunately, the scale of Bank-supported activity in Yemen is currently impaired by prevailing country circumstances. Public work programs have also been implemented in the past during macroeconomic recession, such as in Argentina, with the Trabajar I and II programs and the Heads of Households program.
39. In Jamaica, the Bank Social Protection Project (supporting the PATH CCT) helped link able-bodied members of PATH households to get labor market training and placement services. However, this initiative was only a small pilot.
40. As noted above, 43 percent of projects aimed to expand coverage, 35 percent to improve targeting, and 15 percent to increase benefit levels. For example, in the case studies, targeting was strengthened in four countries: Brazil, Bosnia and Herzegovina, Moldova, and Poland. Likewise, resources were provided for improving physical access to services in four countries: Brazil, El Salvador, Guatemala, and Bosnia and Herzegovina; and increasing service capacity in six countries—Brazil, El Salvador, Guatemala, Uruguay, Bosnia and Herzegovina, and Poland.
41. Trust funds helped increase the amount of technical assistance conducted during the crisis. IEG's recent evaluation of safety nets found that AAA had increased dramatically since the start of the crisis. The staff survey indicated that AAA was the most common activity that the Bank undertook in response to the crisis (47 countries, 76 percent of respondents). AAA was also considered the most helpful Bank support in the context of social safety nets and the food, fuel, and financial crises (20 countries or 50 percent of respondents). The type of AAA that has increased the most since the onset of the crisis is technical assistance, which to a large extent has been funded by the crisis window trust funds. Forty-five new technical assistance or capacity building activities have been undertaken in 29 countries.
42. Europe and Central Asia Social Protection Database.
43. The Bank did not provide support to the pension reform program in Armenia.
44. The second phase of the project in Latvia is meant to tackle some longer-term reforms, but government buy-in has not been strong.
45. Sixty-six percent of projects supporting active and passive labor markets and had objectives to mitigate the systemic shocks targeted crisis-affected households, whereas only 44 percent of other projects targeted crisis-affected households.
46. Sixty-seven percent of the development objectives of crisis period projects mentioned the target population. This represents an improvement if compared to the pre-crisis period (62 percent). Seventy-four percent of the outcome indicators mentioned the target population. This represents an improvement if compared with the pre-crisis period (37 percent). Sixty-four percent of the outcome indicators were time bound. This represents an improvement if compared to the pre-crisis period (12 percent).
47. For instance, in Europe and Central Asia, Bank impact evaluations of three crisis interventions are under way (Armenia targeted social assistance program, Latvia public works program, and Serbia active labor market program).

Chapter 7

1. For example, MIGA could more actively manage its guarantee portfolio in respect of cancellations, reinsurance, and profitability.

Appendix A

1. Including information and communications technology; energy and mining; transportation; and water, sanitation, and flood protection. The sector content definition is in some respects wider than a definition based on sector boards, which would lead to 195 infrastructure projects and omit 38 percent of the current sample. The present sample includes 94 percent of the projects with an Infrastructure Sector Board.
2. Sector board classification. The infrastructure sector includes the following sector boards: Global Information/Communications Technology, Energy and Mining, Transport, and Water.

Appendix B

1. A probit model was run to see how borrowers differ from nonborrowers. The dependent variable was defined as 1 if an eligible Bank borrower borrowed in FY09–10 and 0 otherwise. The independent variables included a continuous measure of crisis (decline in GDP growth, composite stress indicator), regional fixed effects, relative size of economy, log of GDP per capita, if the country is IBRD-eligible, share in pre-crisis Bank lending. On average, no statistically significant differences were found in “stress levels” between borrowers and nonborrowers.

2. Other than World Bank, IMF, IFC, and MIGA, lending data for all other donors are on a calendar year basis. In the robustness tests, CY2008–10 data were used to see if the results hold.
3. For example, Frankel and Saravelos 2010; Rose and Spiegel 2009; Blanchard, Das, and Faruqee 2010; Claessens and others 2010; Lane and Milesi-Ferretti 2010; Berkmen and others 2009. Even among these studies using GDP decline to define crisis, there is considerable variation in how GDP drop is measured. For instance, Blanchard and others (2010) uses growth between 2008 Q4 and 2009 Q1 versus growth over 1995–2007, while Rose and Spiegel (2009) use change in growth between 2005–07 and 2008–09.
4. In “How Resilient Were Developing Countries to the Global Crisis?” (2010), Didier, Hevia, and Schmukler measure the extent of growth collapse by comparing growth in 2009 versus 2007, based on an earlier version presented to the Development Committee of the World Bank and IMF.
5. The thresholds of CR1 were as follows: countries with a decline in GDP growth rate of more than 5 percentage points between the pre-crisis (2006–07) and crisis periods (2008–09) were classified as “most-affected” countries, while countries with a decline of less than 5 percent but more than 2.5 percent were classified as “moderately affected”; all other countries with a decline in GDP growth rate of <2.5 percent were categorized as least affected. Results could change if different thresholds are chosen.
6. Applying CR1 thresholds to the measure of GDP growth rate decline, least affected countries had higher increases in lending (109 percent) than moderately affected ones (94 percent). Using tercile-based grouping, countries in the second crisis tercile had a higher increment (135 percent) than those in the third crisis tercile (102 percent). With quartile-based banding, crisis quartile 2 countries had the highest increment (200 percent) followed by crisis quartile 1 countries (153 percent). Finally, using a quintile-based classification, countries in crisis quintile 2 had the highest increment in lending (362 percent) followed by countries in crisis quintile 4 (159 percent) and only then countries in quintile 1 (152 percent). If the GDP decline measure used in CR1 is used (as a continuous variable), the relationship between incremental Bank lending and crisis intensity is statistically insignificant across all specifications. Using the measure of GDP decline (forecast versus actual), a similar conclusion results.
7. Five-country, 10-country, 15-country bands; the bandings being based on magnitude of change in crisis indicator.
8. There is a large literature on “twin crisis” in which an attack on the currency coincides with a crisis in the banking system (Kaminsky and Reinhart 1999; Bordo and others 2001; Eichengreen and Bordo 2002; Glick and Hutchinson 2002; Shin 2005).
9. Didier, Hevia, and Schmukler (2010) measure the extent of growth collapse by comparing growth in 2009 versus 2007, based on an earlier version presented to the Development Committee of the World Bank and IMF, September 2010.
10. When it comes to systemic banking crises, the empirical literature on identifying such episodes is relatively scarce, and usually focuses on documenting empirical regularities (Allen and Gale 2007). Using more explicit quantitative measures that extend previous classifications both in time and country coverage, Laeven and Valencia (2008) have used (i) deposit runs, (ii) introduction of deposit freezes or blanket guarantees, and (iii) liquidity support to identify systemic banking crisis. Boyd, De Nicolò, and Loukoianova (2009) suggest that criterion (ii) and (iii) measure government responses to a systemic bank shock. One key implication of using government policy response to define crises is that these indicators are likely to date banking crisis onsets too late, at least on average. Government responses to banking distress may be lagging because of uncertainty about the actual extent of problems in the industry. In addition, political economy considerations dictate the speed and resolve of the government response. Using two indicators based on aggregate bank loans and aggregate bank deposits, Boyd and others (2009) find that these indicators predict systemic banking crisis identified in prior studies on crisis dating and incidence, and which were based on government responses to banking stress. Credit and deposit losses have therefore been included as crisis indicators in the analysis.
11. One of the transmission channels through which the recent economic crisis affects household well-being is reduced government services, especially in education, health, and social protection (World Bank 2011b).
12. The vast majority of studies have included some measure of changes in the exchange rate to define crisis. These include bilateral nominal exchange rates predominantly against the U.S. dollar (for instance, Frankel and Rose 1996; Bruggemann and Linne 1999; Osband and Rijkkeghem 2000). Exchange rate changes have often been combined with movements in reserves to create indices of exchange market pressure that measure crisis intensity regardless of exchange rate regime (Kaminsky, Lizondo, and Reinhart 1997; Berg and Pattillo 1999; Tornell 1999; Bussiere and Mulder 1999; Collins 2003; and Frankel and Wei 2004).
13. According to Frankel and Saravelos (2010), even if the IMF funds are stripped out, the drop in international reserves is a biased measure of crisis, as their level would have likely been much lower in the absence of the program.
14. If one chooses to value reserves in U.S. dollars for instance, the data indicate large drops in reserves for many Eastern European countries. This reflects not only a volume loss in reserves but also a paper loss on their value: the appreciation in the U.S. dollar during the crisis reduced the dollar value of reserves of European countries due to the large proportion of Euros in their portfolios (Frankel and Saravelos 2010).
15. Lane and Milesi-Ferretti (2010) use changes in exports growth as a crisis indicator.
16. For example, Indonesia in the late 1990s had a banking and currency crisis, but Ravallion and Loshkin (2007) show that about half of the poverty count in 2002 was attributable to the 1998 crisis. Similarly, the financial crisis in Argentina was found to have had a dramatic effect on real income of workers and households, with 63 percent of urban house-

holds experiencing real income falls of 20 percent or more between October 2001 and October 2002 (McKenzie 2004). The Russian crisis in 1998 manifested itself by devaluation of the ruble, default on debt, and collapse of the stock market. Ravallion and Loshkin (2000) find that expenditure poverty in Russia rose by almost 50 percent following the crisis, and almost 60 percent of the poor in 1998 (after the crisis) had not been poor for two years. Crises also impact non-income measures of poverty as well. Ferreira and Schady (2009) show that in low-income countries schooling tends to decline in a macroeconomic or agro-climatic crisis, while schooling rates actually increase in some middle-income countries.

17. In studying the impact of financial crisis on poverty in Mexico, Philippines, and Bangladesh (Habib and others 2010) find that in Bangladesh and the Philippines, where the crisis has led to a slowdown but not a reversal in GDP growth, poverty is expected to decline at a slower pace due to the crisis. In Mexico, GDP actually contracted by nearly 7 percent in 2009 and is expected to grow by just 3 percent in 2010. As a result, poverty rate is projected to rise by nearly 4 percentage points between 2008 and 2010.
18. Poverty impact of the crisis in a given country will depend on how it affects both average consumption and the distribution of consumption relative to the mean (Ravallion and Chen 2009). Also, this impact will vary, depending on the extent of the shock and initial conditions (Ravallion 2009).
19. Consumption expenditure data from surveys is available with substantial lag so the analysis uses consumption data from national accounts. There are differences on coverage and measurement between the two sources. See Ravallion (2001) for a discussion on the differences and similarities between the two sources.
20. A better, if not perfect, indicator of crisis could have been changes in poverty forecast revisions, that is, poverty projections for 2009/10 made before the crisis and poverty projections for 2009/10 made after the crisis. Such projections have been made in Ravallion, and Chen (2009), who apply country-specific growth projections for private consumption per capita to survey-based data.
21. Mongardini and Saadi-Sedik (2003) say that while industrial production is a very good single coincident indicator, a composite index is preferable as an indication of economic activity. This is because a composite index reflects a broader spectrum of the economy, comprising real, monetary, fiscal, and external sector data. Moreover, the performance of an individual series may vary over different business cycles, making it a poor coincident indicator in some occasions (Dua and Banerji 2000).
22. Factor analysis is a statistical method used to describe variability among observed variables in terms of a potentially lower number of unobserved variables called factors.
23. Pescatori and Sy (2004) define debt crises as sovereign bonds distress events. A country is therefore said to have a debt crisis if there is either a default or when secondary-market bond spreads are higher than 1,000 basis points.
24. A number of studies, although fewer in number, have used equity returns as indicators of stress. For instance, Grier and Grier (2001) use stock returns in 1997 to proxy for the real effects of the crisis. Frankel and Saravelos (2010) use equity market returns in domestic stock market benchmark indices over September 15, 2008, to March 9, 2009.
25. In the absence of available data on Bank risk ratings, the analysis used risk ratings from IFC's Country Risk Ratings series, which is based on an internal IFC assessment. It closely tracks changes in credit ratings by Moody's, Fitch, and S&P. These ratings—which comprise the IFC Corporate Department's own assessment of the general macro view of each country—are treated as confidential by IFC's Corporate Strategy department and are not shared with the board. IEG recognizes that this may not reflect all the same parameters as those used by the Bank in its country risk analysis, but this is the best available proxy. Note that these data have not been used to report any findings on resource allocation and would not affect the principal analysis in this chapter.
26. Unemployment data are not available on a high-frequency basis for most countries in the sample. Besides, in countries with high degree of informality, unemployment data would not capture the extent of the labor market shock.
27. Econometric analyses have not been done when data is not available for more than 75 percent of the countries in the sample.
28. Fiscal deficit is an indicator of fiscal sustainability risk in Baldacci and others (2011).
29. Other measures of fiscal health (besides some mentioned here) are used and explained in detail in chapter 5.
30. Ilzetzki and Vegh (2008), following Blanchard and Perotti (2002), assume that government consumption can only respond to business-cycle conditions with a one-quarter lag. This assumption is common in the VAR estimates of the effectiveness of fiscal policy. Since the crisis became acute in the last quarter of 2008 (Blanchard and others 2010), the analysis assumes that fiscal deficits in 2010 will not be endogenous to donor crisis lending.
31. Data on general government net lending/borrowing from the World Economic Outlook have been used to measure fiscal balance. For more appropriate measures like primary or structural balance, data are available for few countries in the sample.
32. In nonparametric simple regression, there are no parameters estimates. To see the result of the regression, we the fitted regression surface needs to be examined graphically.
33. Extending the local-polynomial approach to multiple regression is practically difficult. Moreover, the resulting regression surfaces (no longer a two dimensional plot) would be hard for readers to interpret.
34. B4*IBRD Eligibility only applies to specifications where dependent variable is Increase in World Bank Lending.
35. The linear and quadratic terms for pre-crisis lending are mean-centered to reduce collinearity. The quadratic term for pre-crisis lending enters in specifications where the nonlinearity is strong and/or the inclusion of the quadratic term significantly improves the model fit (R-squared term).
36. Rudimentary analysis was done using the difference between share of World Bank lending in total donor lending between 2005–07 and 2009–10. The regressors included the measures of crisis intensity, share of country in World Bank's own

lending in the pre-crisis period, IBRD eligibility, size of the economy, and log of GDP per capita. Regional fixed effects was used as a regressor in a second set of regressions. For most indicators of crisis, the coefficient on crisis was not statistically significant. Since changes in Bank share in total donor lending are affected by many other factors and not just coordination, it is not possible to draw any meaningful conclusions about the nature (systematic or ad hoc) of donor coordination for the sample of 117 borrowing countries included in the analysis.

37. There was a very high degree of correlation between country credit risk and CPIA score.
38. Note that all the measures of incremental lending are on an annual average basis, so the volume of lending for these donors is not being inflated by using CY08–10. Also, using CY08 adds some noise to the measure of incremental lending as lending in the early half of CY08 was not motivated by the crisis, and reduces the magnitude of incremental lending. For instance, using CY08–10 as crisis lending period, increase in ADB lending was 58 percent versus 69 percent when CY09–10 is used; for AfDB 93 percent versus 122 percent, for EBRD 76 percent versus 104 percent, and for IDB 82 percent versus 91 percent.
39. Concessional windows and nonconcessional windows follow different objective functions, business models, and allocation policies.
40. Alternative specifications include a quadratic term for fiscal deficit as data suggests some nonlinearity in Bank response.
41. Countries affected by higher currency depreciation received higher incremental World Bank lending as a percentage of GDP compared to Other Major Donors excluding IMF/EIB/EU.
42. In specifications S1–S4 in table B.15, only the interaction between World Bank dummy and crisis measure is introduced. In specifications S5–S8 in table B.15, additional interaction terms between the World Bank dummy and IBRD-eligibility dummy and between the World Bank dummy and pre-crisis volume of institutional lending are introduced. Since incremental response by the two groups will most certainly be different for variables that are specific to one institution but not the other, the addition of these terms is expected to improve model fit and the precision of the estimate of interest.
43. For instance, IDA's share of total IBRD/IDA commitments during the crisis was about one fourth, while the shares of concessional windows in other MDBs' total commitments was only marginal.
44. Countries for which GDP data was not available were also excluded.
45. These countries were also in the quartile of countries with the sharpest GDP decline when considering all eligible Bank borrowers.
46. However, this does not mean that incremental ADB lending was the highest to countries with the most severe crisis

impact, as it is the group of countries in the third quartile of GDP decline that received the highest incremental ADB lending during the crisis period.

47. ADB (2011, ¶¶ 44,45, and 47 and tables 4 and 5).
48. Although the 10 countries with the sharpest crisis had the highest increase in lending for both Bank and AfDB (>200 percent), this was driven by South Africa, which accounted for one-third of incremental lending for both institutions. Excluding South Africa, the group of nine remaining countries with the sharpest crisis had the lowest increase in lending (<50 percent).
49. On average, bigger economies got more incremental Bank lending. In specifications where we include an interaction term between size of economy and GDP decline, bigger economies with average levels of stress were correlated with more incremental Bank lending. However, n = 46 and we cannot use many controls.
50. Using GDP decline, the first 10 countries with the sharpest growth drop accounted for 10 percent of incremental Bank lending versus 52 percent of incremental EBRD lending (\$0.6 billion versus \$2.6 billion). The highest increment in Bank lending was for the next group of 10 affected countries (61 percent versus 39 percent) at \$3.8 billion versus \$2 billion increase in EBRD lending.

Appendix D

1. Methodological note: For the real-time evaluation of the present report, the 17 crisis guarantees have been assessed with a focus on outputs and outcomes to date. The mixed methods employed include document review, staff interviews, four country case studies, visits to two host countries, one completed project evaluation report (PER) and three preliminary drafts of PERs. For the one project with a completed PER, the host country was Russia. This project was the only one among MIGA's crisis response projects that was included in the set of PERs examined in the recent report *MIGA's Financial Sector Guarantees in a Strategic Context* (IEG 2011a).
2. Typically, the parent banks concerned had a long-term commitment to the host country in question. So it is not possible to assert that the recapitalizations covered by MIGA would never have taken place without its support. But the evidence suggests that MIGA guarantees were highly valued and enabled parent banks to optimize their usage of country exposure lines.
3. In the Europe and Central Asia Region, broadly speaking, SMEs tended to have lower financial leverage than did large firms, and hence emerged from the crisis with relatively sound balance sheets.
4. It was also noted in that report that MIGA had not made use of its discretionary authority to increase exposure limits from their Board-approved April 2007 levels.

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