

World Bank Group Response to the Financial Crisis

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1. This paper summarizes the World Bank Group's operational response to the economic crisis. It presents the context and the overall framework for the response as well as particular initiatives including a detailed discussion of the Vulnerability Financing Facility.

Crisis Context

2. **The current global economic crisis is severely hitting developing countries.** Growth prospects for emerging and developing countries have been revised downward by a magnitude similar to that for advanced economies. Low-income countries (LICs), initially shielded from the direct impact of the sudden stop in private capital flows, are now being affected as the crisis effects have spread through other channels, at a time when many LICs are still coping with the impact of the earlier food crisis. The impact could set back the global fight against poverty, and jeopardize the progress made towards achievement of the MDGs. Recent World Bank analysis suggests that the crisis will result in 53 million more people living in extreme poverty (below \$1.25 a day) in 2009, or 65 million more if the \$2 a day measure is used; 200,000-400,000 more infants will die every year and many poor children will lose the opportunity to attend school.

3. **There is a clear need for additional support for developing countries.** President Zoellick has proposed a vulnerability fund, A Call to Action that developed countries pledge an amount equivalent to 0.7 percent of their stimulus packages as additional aid, over and above existing ODA commitments, for the low income countries and the poor and vulnerable in the developing countries. This does not involve creating a new entity: donors can choose where and how to channel their additional monies using existing mechanisms, be it through their own bilateral aid agencies; UN agencies such as the World Food Program, FAO or UNICEF; the World Bank Group and other multilateral development banks; or non-governmental organizations. Crisis support is not only about protecting poor and vulnerable families and long-term development goals. It is also a critical part of the overall global response agenda - developing countries need assistance to raise global aggregate demand, maximize the impact of the global stimulus, safeguard future growth and limit the potential for civil unrest.

4. **The World Bank Group is stepping up its financial assistance to help its member countries mitigate the impact of the crisis.** The Bank Group is leveraging its own resources with financial support from a variety of public and private sources using a menu of options to match the needs of developing countries with the interests and capacities of donors. The Group is also mobilizing a wide range of technical assistance, capacity building and policy advice.

- The Bank intends to almost triple **IBRD lending** in fiscal year 2009 from \$13 billion to \$35 billion, and lending volumes could reach \$100 billion over the next three years. Much of this additional lending is being delivered through fast-disbursing development policy loans (DPL). As of early March, crisis-related DPL lending (committed or planned through the end of fiscal year 2009) totaled over \$12 billion.

- Following its record 15th replenishment, **IDA** has commitments amounting to nearly \$42 billion over fiscal years 2009-11. These resources have been allocated to long-term country development programs. There is scope for front-loading this support over the next year to assist low income countries to mitigate the impact of the crisis; the **IDA Financial Crisis Response Fast-Track Facility**, set up in late 2008, is fast-tracking up to \$2 billion of financial assistance, with the potential to increase this amount in the future depending on the need.
- With its current capital base, **IFC** is projecting an investment volume of about \$12 billion per year over the next three year period. To increase development impact and leverage its resources effectively, IFC has launched new crisis response initiatives in both investment and advisory services. Financing for the new initiatives is expected to combine IFC funds with externally mobilized resources.

5. **To complement and leverage its resources the WBG is seeking additional grant assistance for low income countries and poor and vulnerable groups.** All targeted grant funding to assist developing countries tackle the crisis should be additional to existing donor aid pledges and commitments, including commitments under IDA 15 and commitments for debt relief financing (such as HIPC and MDRI). True additionality is essential to ensure that exceptional donor support for crisis response provides genuine incremental benefits to the developing world. For LICs in particular, flexible deployment of additional resources will complement the IDA 15 commitments, thereby allowing the crisis response to be adapted to the actual pattern of crisis impact across the low-income countries.

6. **The World Bank Group’s operational crisis response initiatives focus on three thematic areas:** protect the most vulnerable against the fallout of the crisis; maintain long-term infrastructure investment programs; and sustain the potential for private sector-led economic growth and employment creation, particularly through SMEs and microfinance. The thematic areas are being addressed through three operational platforms – the Vulnerability Financing Facility (VFF), the Infrastructure Recovery and Assets (INFRA) platform, and the IFC-led private sector platform, respectively. This approach draws on lessons learned in dealing with past crises. The three priority themes are inter-related and span the core development mandate of the WBG. They complement an over-arching focus on macroeconomic stability at the core of the crisis response.

The Vulnerability Financing Facility

7. **The Vulnerability Financing Facility is a dedicated facility to streamline crisis support to the poor and vulnerable.** The VFF organizes under one umbrella the existing *Global Food Crisis Response Program* (GFRP) and the new *Rapid Social Response* (RSR) Program focused on social interventions. The VFF programs address two specific areas of vulnerability to crisis: (i) agriculture, the main livelihood of over 75 percent of the world’s poor, and (ii) employment, safety nets and protection of basic social services to help the poor and vulnerable groups cope with crisis. The VFF builds upon the successes of safety net programs in protecting the assets and livelihoods of vulnerable households, including subsistence farmers and the urban poor, during crises. For the first time in crisis-response, the VFF will ensure that dedicated structures are in place so that adequate attention and resources flow to those who need them most.

8. **The Global Food Crisis Response Program** has facilitated a rapid and flexible Bank response to the global food crisis in partnership with other multilateral organizations and donor

agencies. The GFRP is presently a \$1.2 billion facility made up of Bank-sourced funds, along with \$0.2 billion of Trust Funds which include (i) the Food Price Crisis Response Core Multi-donor trust fund (MDTF), a \$33 million multi-donor TF with initial contributions from Australia; (ii) the European Union Food Crisis Rapid Response Facility with an anticipated total contribution of €110 million; and (iii) the Russia Food Price Crisis Rapid Response trust fund with an anticipated contribution of US\$15 million. The objectives of the program are three-fold: (i) reduce the negative impact of high and volatile food prices on the lives of the poor; (ii) support governments in the design of sustainable policies that mitigate the adverse impacts of volatile food prices; and (iii) support broad-based growth in productivity and market participation in agriculture. The recent decline in world grain prices has not translated into a matching decline in many countries where food markets are not fully integrated, as in landlocked Africa. World grain prices are still 50 percent (maize) to 100 percent (rice) higher than their 2003-06 averages, and the volatility of global grain prices has doubled over the last decade. As a fast disbursing crisis facility the GFRP has been very successful in assisting countries respond to the food crisis. The GFRP going forward will focus primarily on supporting poor farmers with production strategies that make them more productive and less vulnerable, including to the current economic crisis.

9. **The Rapid Social Response Program** is designed to assist countries address urgent social needs stemming from the crisis, and to build up capacity and institutions to respond better to future crises. Under the RSR, all Bank borrower countries are eligible to use IDA/IBRD resources, as appropriate, to provide crisis support to their poor and vulnerable populations. The RSR will finance immediate interventions in the areas of: (i) access to basic social services emphasizing services for maternal/infant health and nutrition, and school feeding programs; (ii) scaling up targeted safety net programs, where adequate mechanisms exist, and building future capacity otherwise; and (iii) active and passive labor market policies to assist in the income support of the unemployed, training, placement and similar employment initiatives. South-South learning and capacity building initiatives will be encouraged as an integral part of countries' long-term social protection systems. The RSR will support projects that are part of costed, nationally agreed social protection and social services strategies where these are in place. It will build on the scale up of the Bank's social safety net and nutrition programs initiated in early fiscal year 2009, which is being supported by the UK and Japan. A multi-donor, country-led Trust Fund will be established under the RSR to provide for additional donor resources to complement IDA for low-income and fragile states especially hard hit by the crisis. The UK has announced that it will contribute £200 million to support the RSR.

How the VFF Works

10. **The two VFF programs (GFRP and RSR) will provide technical and financial assistance to support governments in their immediate and near-term responses to the crisis.** The full range of Bank lending and non-lending instruments are available to clients – investment operations to finance particular goods and services (seeds, fertilizers, extension services, hospitals, schools), development policy operations to provide budget financing and support enhancement of policies and institutions (create or expand safety nets, reduce taxation on basic goods, support health systems), and emergency operations under rapid response.

11. **VFF operations are designed to be delivered more quickly than standard IDA and IBRD operations** while maintaining WBG quality standards-- most GFRP projects for instance are being processed using the Bank's operational policies for emergency response. Second, they

emphasize co-financing – and hence leveraging – IDA and IBRD resources with donor funds for critical government programs. Examples include programs to enhance food security under GFRP and to scale up safety nets under Rapid Social Response. Encouraging co-financing of Bank operations has the additional advantage of leveraging Bank staff resources. For LICs facing severe resource constraints, VFF operations can increase access to highly concessional resources through Trust Funds.

12. **The VFF features rapid project preparation, processing, and disbursement.** Under the GFRP the Bank has demonstrated that it can move quickly to prepare projects and disburse resources to countries. Several GFRP projects have been processed within eight weeks. The Bank has moved at an unprecedented pace to disburse over \$730 million of the \$1.2 billion in GFRP resources in over 30 countries. Internal processing has been accelerated and the lead time for Board review and approval has been cut.

13. **Day-to-day coordination of the VFF will be managed by an expanded version of the GFRP Secretariat.** The secretariat will be overseen by a senior level Steering Committee chaired by a Managing Director that will decide on the allocation of trust funds based on clear eligibility criteria. The VFF Secretariat will report monthly to Senior Management and other donors. The VFF will report on progress and results fortnightly to the Bank’s Board of Executive Directors. Full briefings on progress, results and issues will be provided to the Board every six months. The VFF has a sunset clause; it will support projects and programs that are prepared and approved during a three-year period. All donor funds under the VFF are expected to be fully committed by the end of fiscal year 2011.

Infrastructure Recovery and Assets Platform

14. **The Infrastructure Recovery and Assets Platform (INFRA)** -- the second thematic area of the Bank Group’s crisis response – **supports counter-cyclical spending on infrastructure and protects existing assets and priority projects.** This is an effective tool to provide the foundation for rapid recovery and job creation and to promote long term growth. INFRA aims to help countries:

- **Stabilize existing infrastructure assets**, including by restructuring and providing funding to those infrastructure projects with private, public or mixed participation which are facing temporary financing problems;
- **Ensure delivery of projects that remain government priorities** by monitoring country focus on infrastructure, through analytical work and by building government capacity to plan for infrastructure expenditures;
- **Support Public Private Partnerships (PPPs) in infrastructure**, by bridging the current gap in available financing for private or PPP infrastructure projects in emerging markets; and
- **Support new infrastructure project** development and implementation, for example under the Africa’s regional integration agenda, which includes projects with potential for high economic returns.

15. The entry point for the implementation of the INFRA platform, is a rapid diagnostic tool to identify those countries where infrastructure financing is most at risk and projects appropriate for INFRA support. The diagnostic provides a detailed assessment of infrastructure spending and a

methodology to assess the impact of the crisis. To enhance coordination, the country assessments will be made available to other donors. The other components of INFRA include scaled up parallel financing initiatives, and a concessional financing window to fund project preparation, and temporary subsidies to infrastructure services provision for the most vulnerable groups. An important component of INFRA is the **Energy for the Poor Initiative** which aims to expand energy access, help the poor adjust to energy shocks, and reduce their vulnerability to volatile energy prices. INFRA will advance the “green agenda” by leveraging financing such as the Carbon Partnership Facility and Clean Technology Fund.

Private Sector

16. **Supporting the private sector is the third thematic area of the Bank Group’s crisis response.** Staying engaged with the private sector in the developing world, notably the SME and micro-enterprise sectors which account for most private sector jobs, is critical both to the global recovery and to protecting the long-term growth potential vital to billions of the world’s citizens. IFC initiatives cover three broad areas: (i) providing liquidity support, (ii) rebuilding financial infrastructure and (iii) managing troubled assets.

17. **IFC liquidity support aims to:** (i) ease financing and liquidity constraints on trade; (ii) ensure the availability of credit for micro, small, and medium enterprises, (iii) support viable infrastructure projects; and (iv) help agribusinesses address liquidity and capital challenges. Specific initiatives include: (i) the expansion of the Global Trade Finance Program (GTFP) from \$1 billion to \$3 billion; (ii) the creation of a Global Trade Liquidity Pool (GTLP) with \$1 billion from IFC and \$2-4 billion from development institutions to co-fund a trade liquidity pool on a risk-sharing basis with commercial banks; (iii) the launch of an Infrastructure Crisis Facility, including \$300 million from IFC, representing the private sector side of the INFRA platform; and (iv) the creation of a Microfinance Enhancement Facility in partnership with German development bank, KfW. IFC is also working to address the constraints in the global food-supply chain.

18. The IFC is adopting a multi-faceted approach to **rebuilding financial infrastructure** involving investment in the banking sector, advisory services and policy guidance. The IFC Recapitalization Fund, in which IFC has invested \$1 billion and Japan \$2 billion, aims to provide additional capital for banks in developing countries to ensure they can support economic recovery and job creation. IFC is also refocusing existing advisory services programs on helping clients in the crisis. Finally, IFC is working to create a private sector **troubled assets management** program to encourage transparent auctions to help governments and banks transfer their non-performing loans to the private sector for processing and to foster sustainable and prudent work-out practices.

19. MIGA is responding to the crisis through its operational activities. It has extended guarantees covering shareholder loans from European banks to recapitalize their subsidiaries in Ukraine and the Russian Federation, and is supporting reinsurance in Eastern Europe. As part of the Joint IFI Action Plan to support the banking sector in East Europe, MIGA will provide political risk insurance capacity of up to €2 billion for bank lending, subject to Board approval. The Board has approved an initiative that focuses on support to SMEs in sub-Saharan Africa.

Donor Coordination

20. **Coordination with other development partners is essential to leverage scarce resources and capacity.** As with the food crisis, the Bank Group will continue to work closely with other multilateral organizations to ensure that countries receive the support needed:

- The Bank will work with **UN agencies** with tested delivery mechanisms on the ground such as FAO, IFAD, ILO, UNICEF, WFP and WHO to ensure full coordination of our responses.
- In the spirit of the Accra agenda the Bank will continue to **use established in-country systems to coordinate support** and ensure that all support is consistent with country development priorities.
- The Bank will work closely with **the IMF** in the case of development policy lending operations.
- All activity under the Bank Group's crisis response will ensure **close collaboration with regional initiatives** such as the African Union's recently adopted Social Policy Framework and The New Partnership for Africa's Development.