CHAPTER 8

The Role of the World Bank Group

The World Bank Group's response to the 2009 global recession was unprecedented in its scale. Annual average financing commitments nearly doubled between fiscal years 2007/08 and 2008/09 and between fiscal years 2009/10 and 2010/11, and reached more than 100 countries, with the largest increases in Latin America and the Caribbean and in Europe and Central Asia. Lending prioritized support for social protection, financial and infrastructure development, and fiscal management. The World Bank Group supplemented traditional instruments such as investment lending and development policy lending with more flexible facilities that supported crisis-impaired activities, including trade finance and infrastructure investment. Since then, the World Bank Group has capitalized on its crisis experience. It has expanded its global economic surveillance capabilities to better identify emerging financial and macroeconomic risks, it has rebuilt its capital, and its operating model has become more flexible and adaptable to the needs of its member countries. The World Bank Group's current policy toolkit contains a comprehensive set of instruments to help countries reduce risk and mitigate the consequences of crises, and to build longer-term structural resilience.

Introduction

The global financial crisis and the subsequent 2009 global recession not only adversely affected global growth and poverty but also demonstrated the limitations and challenges of unilateral responses by national governments (chapter 7). The global recession required rapid and targeted responses by international financial institutions (IFIs)—in particular, it led the World Bank Group to provide unprecedented financing support and advisory services to its member countries.

The previous chapters discussed the broad range of factors that contributed to the global recession and the new vulnerabilities that have been building since then. In emerging market and developing economies (EMDEs), fiscal buffers have eroded, structural changes in financial markets have created new challenges, and reform momentum has weakened after an initial postcrisis burst. Meanwhile, EMDEs face heightened risks from global policy uncertainty, trade tensions, weak growth in advanced economies, and bouts of volatility in global financial markets. This confluence of risks and vulnerabilities raises concerns about the possibility of a global downturn and highlights the continued importance of IFIs in preventing and mitigating economic and financial stress.

Against this backdrop, this chapter examines the following four questions:

- How did the World Bank Group respond during the global recession?

Note: This chapter was prepared by Lei Sandy Ye.

- What was the assessment of the World Bank Group's response?
- How have the World Bank Group's strategy and operating model changed since the global recession?
- What policies can the World Bank Group offer to reduce vulnerabilities and build resilience ahead of future crises?

In addressing these questions, this chapter links the World Bank Group's global recession response to the evolution of its policy toolkit in the subsequent decade. Although an exhaustive analysis of the World Bank Group's role during the global recession is beyond the scope of this chapter, it adds to a set of studies that have examined the World Bank Group's response to the global recession. Most prominently, the World Bank Group's Independent Evaluation Group (IEG) conducted two comprehensive studies that examined the response. The first described the overall response, presented an early evaluation of its effectiveness, and drew initial lessons (IEG 2011a). The second analysis, a year later, examined the effectiveness of the World Bank Group's crisis response in the areas of social protection, financial sector policies, and fiscal management (IEG 2012). These and other studies have documented that the World Bank Group largely retained its lending models and focus areas through the crisis and the subsequent global recession (Guven 2012; Hall 2015; IEG 2012).[1]

The chapter contributes to these works in three ways. First, it analyzes the World Bank Group's crisis response under the lens of the subsequent decade, a longer time span than the existing work. Second, it analyzes how the global recession affected World Bank Group operations. It documents that, while the institution demonstrated a consistent overall policy position that prioritized its traditional areas of expertise, such as social protection, it has also in the last decade made refinements to its strategy and operating model that were motivated by its experience responding to the global recession. Third, the chapter shows that, partly drawing on the lessons from the global recession response, the World Bank Group's current crisis-response strategy in financing and advisory functions combines crisis risk and impact mitigation with longer-term efforts to build structural resilience.

The chapter documents the following findings.

- World Bank Group's financing during the global recession was unprecedented in volume. Financing commitments nearly doubled in real terms (2010 U.S. dollars), from an annual average of $37 billion during fiscal years (FY) 2007/08 and 2008/09 to an annual average of $66 billion during FY2009/10-FY2010/11. This World Bank Group financing was larger than during earlier crises, with commitments

[1] Guven (2012) argues that the thematic distribution of World Bank lending during the crisis was similar to precrisis patterns. Hall (2015) documents that World Bank Group lending aggressively increased its focus on social protection during the crisis, but that its objectives had not changed significantly from the precrisis period. IEG (2012) shows that precrisis lending patterns were an important determinant of lending patterns in the immediate aftermath of the crisis. The IEG is also currently preparing an evaluation of World Bank Group support for policies to address ex ante vulnerabilities between FY2010 and FY2018 (IEG 2019a).

made to more than 100 economies. The World Bank Group's disbursements during the crisis were also larger than those of any other major IFI.

- The forms of World Bank Group financing were diverse across its multiple entities. Lending by the International Bank for Reconstruction and Development (IBRD) nearly tripled, whereas that of the International Development Association (IDA) increased by about 20 percent. The support of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) did not surge, but the former provided investments and the latter provided financial guarantees targeted at sectors and regions that were especially hard-hit by the global recession.[2]

- Lending during the global recession increased the most for Latin America and the Caribbean (LAC) and Europe and Central Asia (ECA), the two most crisis-affected regions. About one-fifth of World Bank (comprising the IBRD and IDA) lending was distributed to low-income countries (LICs), equivalent to about 1 percent of their gross domestic product (GDP). Upper-middle-income countries (UMICs) and lower-middle-income countries (LMICs) each received about 40 percent of World Bank crisis commitments, but these represented much smaller shares of recipient GDP than was the case for LICs.

- As in previous global crises, the World Bank Group prioritized its lending in the areas of social protection, infrastructure investment, fiscal management, and financial sector development. Although investment lending served as the primary lending tool during the global recession, the World Bank Group provided development policy lending more heavily than during noncrisis periods because of its faster pace of deployment. It also adopted crisis-specific facilities in targeted areas, such as trade finance and infrastructure investment, where the World Bank Group has long-standing expertise.

- The World Bank Group has built upon its experience during the global recession in its subsequent work. It has improved its monitoring and surveillance of global macroeconomic and financial developments, allowing it to more effectively flag risks in the world economy. It has completed two rounds of global campaigns to improve its capital adequacy, partly to make it better prepared for future crises. It has refined its operating model by introducing new crisis response facilities and implementing a more coordinated Bank-wide strategy in its financing and advisory activities, helping to enhance its ability to respond quickly and flexibly should a future crisis arise. The World Bank Group has an extensive set of both traditional and new support instruments to help members reduce crisis risk and impact and to build longer-term resilience against future crises. These instruments constitute an important strategic capability that better enables it to advance its twin goals of poverty reduction and shared prosperity, including by mitigating the reversals that occur during economic downturns.

[2] Unlike traditional lending, MIGA provides political risk insurance guarantees or credit enhancements to investors and lenders in order to promote cross-border investment.

Response to the global recession

During the global recession, the World Bank Group made an unprecedented volume of loans to EMDEs, nearly doubling its annual financing commitments from the precrisis period and reaching more than 100 member countries.

Magnitude. The World Bank Group financing response to the global recession was notably larger than in previous crises. In real terms, the World Bank Group's annual financing commitments nearly doubled during the global recession, from an average of $37 billion (2010 U.S. dollars) during FY2007/08-FY2008/09 to an average of $66 billion during FY2009/10-FY2010/11, and the World Bank Group registered the highest financing disbursements among all major IFIs (IEG 2011a).[3]

The World Bank Group's crisis financing took diverse forms across the institution's multiple entities. The sharpest increase in lending occurred at the IBRD, where commitments nearly tripled from about an annual average of $14 billion during FY2007/08-FY2008/09 to $39 billion during FY2009/10-FY2010/11 (figure 8.1). Lending by IDA increased less sharply, by about 20 percent, given its less elastic funding envelope. Investments from the IFC and guarantees from MIGA increased less strongly but shifted toward targeted interventions in specific countries or sectors that were particularly affected by the global recession. For example, the IFC significantly shifted its investments toward its Global Trade Finance Program, which provided risk guarantees to mitigate counterparty risk for banks' trade transactions (IEG 2011a). MIGA issued guarantees to provide political risk insurance and facilitate cross-border payments of financial institutions, especially those in the ECA region, one of the hardest-hit regions during the global recession. MIGA also relied heavily on its Global Financial Sector Initiative to issue financial sector guarantees, providing liquidity to subsidiaries of financial institutions in times of stress.

As historical comparisons, during the 1997-98 Asian financial crisis, World Bank (IBRD and IDA) commitments increased from an average of $28 billion a year (2010 U.S. dollars) during FY1996-FY1997 to $38 billion a year during FY1998-FY1999—a substantial increase, but smaller than the doubling of lending in response to the 2009 global recession (figure 8.1). During the 1980s—the decade of the Latin American debt crises—the World Bank's annual increases in lending have not exceeded 12 percent. As lending commitments rose during the global recession, the average size of World Bank projects increased sharply from a FY2003-FY2008 average of about $85 million to nearly $150 million during FY2009-FY2010. There was, in particular, a significant ramp-up in IBRD lending to EMDEs that had experienced sudden stops in capital flows.

Regions and country groups. The regions that suffered the most severe impacts from the global recession were LAC and ECA, and they received the largest shares of the

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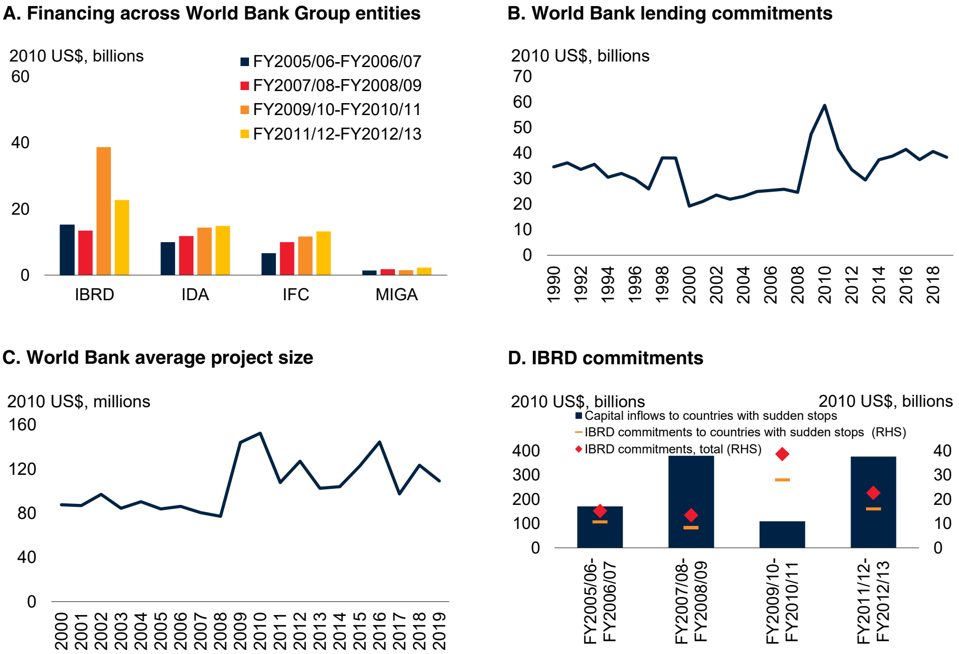
[3] World Bank Group disbursements, including from previously approved operations, also increased by about 50 percent, from an annual average of $27 billion 2010 U.S. dollars during FY2007-FY2008 to $41 billion during FY2009-FY2010.

FIGURE 8.1 World Bank Group financing during the global recession

During the global recession, the World Bank Group nearly doubled its annual lending commitments. IBRD commitments nearly tripled, whereas other World Bank Group entities provided targeted interventions. The average project size of the World Bank also increased substantially. The increase in IBRD commitments was significantly channeled to economies that experienced sudden stops in capital flows.



Sources: International Monetary Fund; World Bank.

Note: All years denote fiscal years (FY). IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency. "World Bank" refers to IBRD and IDA.

A. Annual averages over the periods denoted. Data for IBRD/IDA refer to commitments. Data for IFC refer to investment commitments from own accounts. Data for MIGA refer to guarantee issuances.

B.C. Data refer to IBRD and IDA. Last observation is FY2019.

C. Ratio of total new lending commitment value to number of new projects.

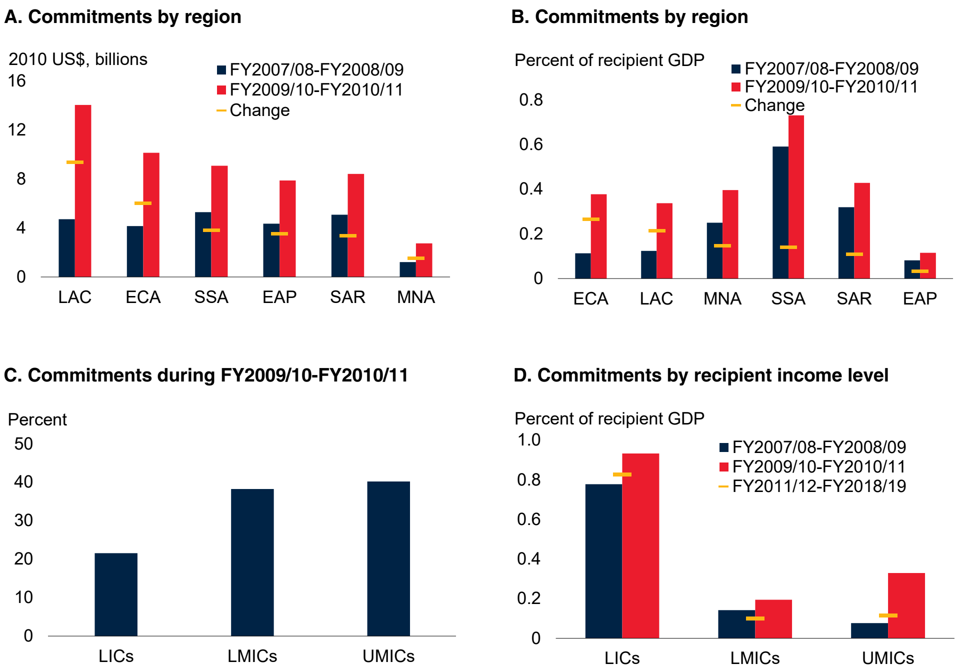
D. Data refer to IBRD. Annual averages. Except for total IBRD commitments, data are based on 20 emerging market and developing economies (EMDEs) where sudden stop episodes (two standard deviations below historical mean of capital inflows) are identified either in 2008 or 2009, as defined in Forbes and Warnock (2012): Argentina, Brazil, Chile, Colombia, Guatemala, Hungary, Indonesia, India, Sri Lanka, Mexico, Malaysia, Panama, Peru, the Philippines, Poland, Romania, the Russian Federation, Thailand, Turkey, and South Africa. Capital inflows include foreign direct investment, portfolio investment, and other investment, and are presented as net inflows.

World Bank's commitments and the largest increases in commitments (figure 8.2).[4] Although lending commitments to the LAC region were the highest in dollar terms, the rise in commitments in relation to recipient GDP was the highest in ECA. In some regions (such as East Asia and Pacific [EAP]), lending occurred in conjunction with

[4] In LAC, growth declined from 6 percent in 2007 to -2 percent in 2009. In ECA, growth declined from 8 percent to -6 percent during the same period. These two regions experienced the most marked slowdowns in growth during the crisis. Similar to lending commitments, World Bank disbursements during FY2009-FY2010 were also the highest in these two regions. The IFC concentrated its investments in LAC, ECA, and Sub-Saharan Africa (SSA), whereas MIGA concentrated its guarantees in ECA.

FIGURE 8.2 Lending commitments during the global recession by region and country group

Both the levels of and increases in World Bank lending during the global recession were greatest in the LAC and ECA regions, reflecting these regions' larger exposure to the effects of the global recession. Lending to LICs constituted about one-fifth of the World Bank's FY2009/10-FY2010/11 commitments and about 1 percent of their combined GDP.



Source: World Bank.

Note: All years denote fiscal years (FY). EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; LICs = low-income countries; LMICs = lower-middle-income countries; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa; UMICs = upper-middle-income countries.

A.B.D. Each column shows annual averages over denoted fiscal years for the IBRD and IDA.

C.D. Data refer to IBRD and IDA. Income classification as of FY2009/10. Panel C shows percent of total commitments in each income group.

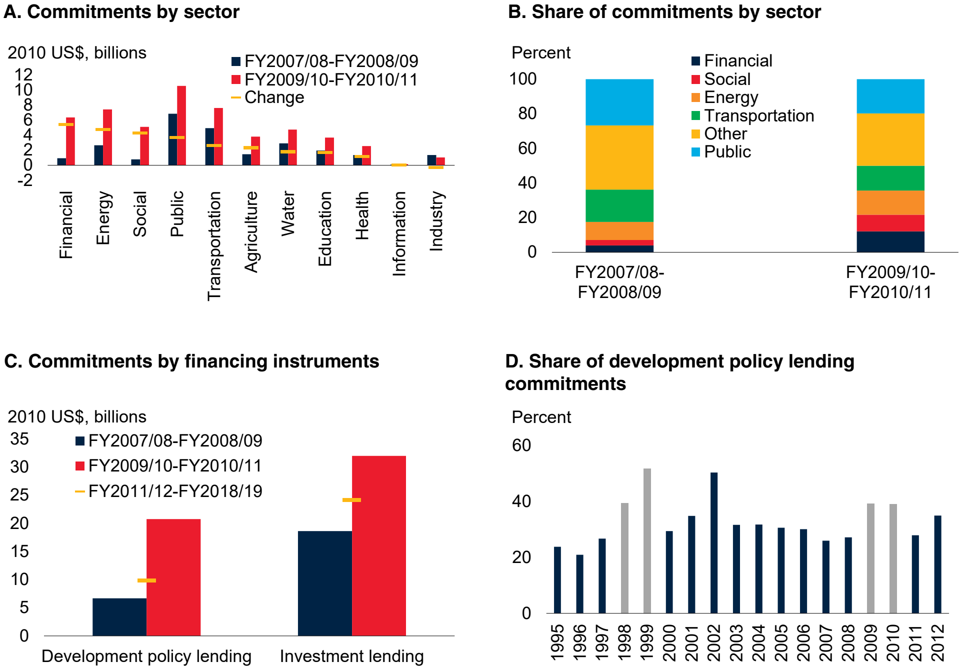
regional development banks, or in some instances, in the context of International Monetary Fund (IMF) programs.

Lending commitments to LICs during the crisis constituted about one-fifth of World Bank commitments. This was considerably less than the 40 percent of commitments each to LMICs and UMICs, which had stronger financial and trade ties with the advanced economies where the crisis had originated. Relative to the size of their economies, however, lending to LICs was considerably larger (1 percent of GDP) than to middle-income economies (MICs, 0.3 percent of GDP).

Sectors. The World Bank's financial support during the crisis increased most rapidly in the financial (for example, banking), infrastructure (for example, energy and transportation), public (for example, fiscal management), and social protection sectors

FIGURE 8.3 Lending commitments during the global recession by sector and instrument

The largest increases in World Bank lending commitments were in the financial, energy, public, and social protection sectors. Investment lending remained the main form of lending during the global recession. Because development policy lending can be disbursed more quickly, however, its share of lending increased during the global recession, as it did after the Asian financial crisis.



Source: World Bank.

Note: Data refer to the International Bank for Reconstruction and Development and the International Development Association. All years denote fiscal years (FY).

A.B. "Public" denotes reforms in the public sector. Columns in A show annual average commitments.

C.D. Development policy lending provides budget support to governments or their subdivisions for a program of policy and institutional reforms that help sustain growth and poverty reduction, while investment lending finances activities that generate social or physical infrastructure to achieve sustainable growth.

C. Columns show annual average commitments.

D. Denotes annual commitments of development policy lending as a share of total lending. Gray denotes crisis periods' support. Development policy lending was named "adjustment lending" before FY2005.

(figure 8.3). Infrastructure projects accounted for about one-third of the increase in commitments. Social protection lending supported programs like social safety net assistance delivery, for which many economies (especially LICs) lacked effective systems. In terms of identified sectoral shares of crisis lending commitments, public administration took the largest.[5] These operations mostly supported reforms in fiscal policy, expenditure management, and external sector competitiveness in many economies.

[5] Similar to lending commitments, disbursements also prioritized these four sectors.

Financing instruments. During the crisis, the World Bank relied on its traditional instruments of development policy lending (DPL) and investment lending, but more intensively used the former relative to normal times because of its faster-disbursing nature. DPLs provide budget support to governments or subnational bodies for policy and institutional reforms that help sustain growth and poverty reduction, whereas investment lending finances investment in social or physical infrastructure in specific sectors to promote sustainable growth. DPLs may be coupled with a Deferred Drawdown Option (DDO) or packaged as Special Development Policy Loans (SDPLs). DDO provides a contingent credit line that allows disbursement of DPLs to be deferred for up to three years, helping the borrowing country to cope with liquidity constraints during times of economic stress. An SDPL allows countries to participate in international rescue packages during or near crisis times.

For example, DPLs during FY2009/10-FY2010/11 for Mexico supported a strong countercyclical fiscal policy package to reduce crisis vulnerabilities and help build medium-term fiscal sustainability. Similar fiscal policy-related DPLs were provided to other large EMDEs hit significantly by the crisis, such as Brazil. These DPLs often drew on a Public Expenditure Review of the client country's public finances and their sustainability. DDOs were used in economies like Indonesia, for which the World Bank Group provided a contingent credit line of $2 billion in an overall multilateral financing facility of $5.5 billion. This helped Indonesia retain the confidence of global capital markets and allowed it to be one of the first EMDEs to issue bonds internationally during the crisis. The SDPL was used by Latvia to support its social safety net and social sector.[6] In Ukraine, DPLs by the World Bank Group were tailored to address severe stress in the banking sector and involved engagements with private banks. Importantly, they successfully signaled a coordinated response with other international financial institutions to support other areas of economic distress (for example, fiscal policy).

Investment lending projects during the crisis included sector-level loans supporting interventions specific to client countries' special circumstances. These included social protection projects to support vulnerable households or large infrastructure loans to support public investment during the economic downturn. For example, in the World Bank Group's crisis support for Mexico, quick disbursing investment loans in social protection helped the government sustain the financing of two existing large-scale social protection programs (IEG 2018a).

Although investment lending continued to be strong, DPLs increased more rapidly during the global recession, reflecting the instrument's flexibility and high disbursement speed (figure 8.3). Disbursements during FY2009-FY2010 under DPLs were predominantly (91 percent) under new commitments made in the same fiscal years. In contrast, under investment lending, 27 percent of disbursements in FY2009-FY2010 reflected new commitments made in the same fiscal years (IEG 2011a).

[6] Two additional loans, to Latvia and Hungary, were also extended later as SDPLs. This option had been used in other crises, including for Argentina in 1998 and Turkey in 2001.

The IFC and MIGA provided guarantee issuances that improved confidence in financial sectors and their ability to support the real economy. The IFC provided these under its Global Trade Finance Program, helping to ease financing constraints in sectors like the Brazil-Bolivia motor vehicle parts trade, the China-Bangladesh textile trade, and the Russian Federation-Pakistan wheat trade (IEG 2011a). MIGA concentrated its crisis guarantee issuances in the financial sector, especially in ECA, reflecting increased client demand. These guarantees were particularly helpful in recapitalizing many financial institutions in ECA.

Crisis-specific facilities. At the onset of the global financial crisis, a number of new facilities were adopted to accelerate the World Bank Group's response and complement its traditional instruments.

The first, launched at the end of 2008, was IDA's Fast Track Facility. This facility allowed rapid approval of funding for projects related to social safety nets, infrastructure, education, and health.

Starting in early 2009, the IFC established several facilities (in some cases jointly with other IFIs and the private sector) to help member countries cope with the effects of the global recession. The Global Trade Liquidity Program provided risk mitigation and sharing for international banks' trade portfolios. The Microfinance Enhancement Facility targeted loan refinancing to more than 100 microfinance institutions in up to 40 economies. The IFC Capitalization Fund provided capital support to systemically important banks. The Infrastructure Crisis Facility supported privately funded infrastructure projects that faced financial constraints but were otherwise viable. The Debt and Asset Recovery Program provided debt and equity investments to support corporate restructuring.[7]

The World Bank Group also relied more extensively on several facilities that had been established shortly before the global recession. The Global Food Crisis Response Program helped countries deal with food insecurity, an issue that was exacerbated by the global recession. The Rapid Social Response Program helped countries build and deploy protective measures in social protection, including social safety nets and nutrition programming, while the Infrastructure Recovery and Assets Platform targeted lending, diagnostics and partnerships to the energy, communications, water, and transport sectors.

The World Bank Group also provided a wide range of nonfinancing support during the global recession in the form of advisory services and technical assistance. This support includes investment climate assessments to help identify private sector vulnerabilities, workshops on risk management and nonperforming loans resolution, technical assistance and simulation exercises to strengthen authorities' contingency plans, and regional analytical work on pensions to help support DPLs in the ECA region. At the IFC, the Infrastructure Crisis Facility included an advisory component that assisted

[7] This program was later succeeded by the Distressed Asset Recovery Program.

governments in designing public-private partnerships. In some instances (for example, Mongolia), the World Bank Group also proactively led the coordination of international support for client economies (IEG 2012).

Assessment of response

To what extent did the World Bank Group foresee the crisis?

Similar to other major IFIs, the World Bank Group neither predicted the global financial crisis nor immediately perceived its severity as it erupted.[8] Before the onset of the global financial crisis, the World Bank Group's main surveillance publication, the *Global Economic Prospects* report of January that year, pointed to a temporary, moderate slowdown in advanced economies. Although it highlighted several downside risks, such as those associated with the U.S. mortgage market, it expected these disruptions to be temporary and was concerned that monetary authorities might "overstimulate" the economy in the face of uncertainty. The term "crisis" was used only in the context of the U.S. subprime market, and there was no indication of crisis risks of a global nature (World Bank 2008b).[9]

Around April 2008, the World Bank Group's *Global Monitoring Report* on developments in global poverty acknowledged that "the recent financial market turbulence and the resulting global economic slowdown pose difficult challenges for policy makers" (World Bank 2008c). It did not, however, discuss risks of a global financial crisis.

This somewhat sanguine outlook for the global economy before the onset of the global financial crisis was shared in the World Bank Group's regional monitoring publications. For example, the April 2008 edition of the World Bank Group's ECA semiannual regional flagship report, a comprehensive study of the region's long-run productivity prospects, did not flag global economic risks and their potential impact on the region (World Bank 2008d). Similarly, in the World Bank Group's regional update in April 2007 for EAP, although the heightened uncertainty about U.S. growth prospects was acknowledged, a key development highlighted was the tightening of global monetary policies and their impact on East Asia, with no mention of the possibility of a global financial crisis (World Bank 2007).

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[8] Qualitatively, this is evident from the views on the global economy expressed in World Bank Group/IMF Development Committee Communiques during 2007-08. In October 2007, the Development Committee stated that "global economic growth remains strong and the direct impact of recent financial market turbulence on developing countries has been limited" (Development Committee 2007). One year later, it acknowledged that markets are "experiencing unprecedented turmoil. Developing countries [...] risk very serious setbacks to their efforts to improve the lives of their populations…." (Development Committee 2008). Similarly, the World Bank Group's financial surveillance publication, the *Global Development Finance* report, acknowledged that the global economy has "entered a period of financial market turmoil" but still expected 3 percent 2019 global economic growth in mid-2018 (World Bank 2008a).

[9] The management response to the IEG study on the World Bank's crisis response pointed to a number of internal briefings in 2008 that highlighted deteriorating global economic conditions and pressure on private capital flows (IEG 2011a).

Other IFIs also failed to flag the risk of a global financial crisis. For example, in the July 2007 *World Economic Outlook* update, IMF staff reported that "the strong global expansion is continuing, and projections for global growth in both 2007 and 2008 have been revised up to 5.2 percent from 4.9 percent [previously]. Risks to this favorable outlook remain modestly tilted to the downside" (IMF 2007). Moreover, in a study of the IMF's response to the global financial crisis, the institution's Independent Evaluation Office concluded that the IMF "prematurely endorsed fiscal consolidation in large advanced economies" in the immediate aftermath of the Lehman collapse, suggesting an insufficient appreciation of the severity of the global financial crisis (IEO 2014).[10]

After the onset of the global recession in 2009, the World Bank Group's analytical and advisory activities at the global, regional, and country levels provided important inputs for World Bank Group DPLs (IEG 2011a).[11] Nonetheless, lending decisions tended to rely on preexisting country engagement dialogues rather than surveillance work (IEG 2011a). Improvements in the World Bank Group's surveillance and analytical work in the postcrisis periods helped strengthen this linkage by incorporating a more harmonized strategy across certain objectives, such as the use of Systematic Country Diagnostics to identify macro-development priorities (discussed in more detail below).

Strengths of and lessons from World Bank Group response

Crisis response policies. During the global recession, the World Bank Group deployed both traditional financing instruments and crisis-specific facilities. Given the speed and flexibility of DPLs, it is not surprising that, as in the Asian crisis (named "adjustment lending" then), the World Bank Group relied heavily on this instrument. Its crisis-specific facilities, although not the main policy tool in the World Bank Group's crisis response, allowed the targeting of specific sectors (for example, finance and trade) where the World Bank Group had well-established expertise.[12]

As in the Asian financial crisis and other episodes, the World Bank Group maintained the focus of its crisis financing on protecting the poor, maintaining infrastructure investment, and sustaining the private sector.[13] This focus was evident in April 2009, when the Development Committee affirmed the critical role of the World Bank Group during the crisis in supporting countercyclical policies, including for social safety nets,

[10] The IMF lowered its 2019 global growth forecast from 2.6 percent in April 2008 to 1.1 percent in November 2008, slightly more sanguine than the World Bank Group's forecast of 0.9 percent in November 2008 (IEG 2011a).

[11] Lending to some EMDEs during the global recession was also built on earlier analytical work specific to these economies. For example, the DPL to Jordan during the crisis relied on the Bank's public expenditure review, investment climate assessment, and Financial Sector Assessment Program updates on the country. Similarly, a number of DPLs in ECA (for example, Hungary, Poland, Ukraine) incorporated insights from the region's analytical work on pensions.

[12] The World Bank Group did not adopt as many crisis-specific facilities as the IMF did in its crisis response (IEG 2012); however, the World Bank Group's reliance on traditional instruments helped to keep the cost of borrowing to client countries lower than that at other IFIs (IEG 2011a).

[13] For details, see Development Committee (1998, 2009); Edwards (1994); IEG (2006, 2007, 2009); World Bank (1999, 2009a, 2010a).

sustaining infrastructure and other priority investments, trade finance, and bank recapitalization (Development Committee 2009). This position was reflected in strong lending increases in these sectors during the global recession. The World Bank Group's policies and priorities during the global recession also allowed it to deploy its well-established expertise effectively, including in specialized areas (for example, social protection).

A few studies, most prominently two by the World Bank Group's IEG, documented strengths and weaknesses in the World Bank Group's response (IEG 2011a, 2012). The rest of this subsection draws largely upon the findings of these two studies.

Strengths

- The World Bank Group's response was *deep and broad-based*, supported by its sound financial position on the eve of the crisis. Its disbursements were the largest among all IFIs and reached the vast majority of crisis-affected countries.

- The World Bank Group was able to tap into its *technical expertise* on poverty alleviation in its crisis lending (for example, conditional cash transfers programs; IEG 2011a). It also relied on its well-established country engagements and dialogues, and employed programs tailored toward country-specific needs.

- *Social protection response* was swift, with a sharp increase in lending volume in this area. About half of crisis-related fiscal development policy operations also included provisions to protect social safety nets (IEG 2017b). The World Bank Group also supported medium- and long-term social protection objectives in its lending, capitalizing on the crisis as an opportunity to further reforms in these areas.

- The IFC and IDA were agile in establishing a number of useful *new crisis-specific facilities*. The IFC's Global Trade Liquidity Program along with the expanded Global Trade Finance Program were found to be generally effective in facilitating trade finance, including for LICs (Galat and Ahn 2011; IEG 2011a, 2012). IDA's Fast Track Facility, adopted at the end of 2008, helped reduce the processing time of many eligible operations for LICs (World Bank 2009a).

- The World Bank Group in some instances successfully leveraged its crisis response as opportunities to *build buffers and resilience* for client economies. For example, World Bank Group support for Mexico included a medium-term fiscal sustainability framework and an environmental sustainability framework; in the case of Indonesia, support included a contingency financing facility that improved market confidence. The public expenditure reviews incorporated in some DPLs also included effective diagnostics on the distributional impact of fiscal adjustment.

Despite the successes in many dimensions of the World Bank Group's crisis response, there were also inevitably shortcomings, which have provided lessons for its evolving strategy and operating model (Development Committee 2009).

Shortcomings and lessons

The IEG identified several factors that limited the effectiveness of the World Bank Group's response, which the institution has subsequently worked to address (IEG 2011a, 2012).

- A need was identified for better balance between country-specific engagement and a cross-country, *global strategy* in lending. The World Bank Group's response to the global recession was found to be highly country-specific, often lacking adequate central guidance and monitoring. Moreover, lending was large to some economies that were apparently not severely affected by the global recession, which suggested a need for clearer communication about the bases for World Bank Group's lending decisions under instances of low crisis severity.[14]

- *Financing modalities* lacked the flexibility needed to avoid implementation lags in disbursement. These lags were found in the World Bank Group's global initiatives, such as the IFC Capitalization Fund and Infrastructure Crisis Facility (IEG 2012). In some World Bank Group DPLs, conflicting objectives between reforms and provision of financing contributed to some implementation delays. Financial intermediary loans to provide working capital for the private sector also disbursed slowly at times (IEG 2017b).

- *Crisis-specific policy content* of World Bank Group lending was at times limited. In the context of the World Bank Group's fiscal DPL, some focused on sectors not directly related to the crisis, and they did not always support countercyclical responses. For some infrastructure project support, the realizations of returns were too distant in time to have substantial countercyclical impact, or in other instances, they experienced low disbursements. In some DPLs, more attention could have been devoted to expenditure and revenue strategies to maintain fiscal sustainability and space for possible future countercyclical need (IEG 2017b).

- Although the World Bank Group's response in the *financial sector* was effective in some areas, it was limited in other dimensions. Its financial sector work capacity was low in some instances—at the onset of crisis, Financial Sector Assessment Programs (FSAPs) were available for only about one-third of client economies. The thematic content of the World Bank Group's financial sector operations was found to be similar during the crisis and precrisis periods. During both periods, about 13 percent of lending was allocated to financing of small and medium-sized enterprises and about 14 percent was to banking sector support (IEG 2012). Implementation

[14] The World Bank Group management's response to the IEG findings provides a different view on the low correlation between crisis severity and allocation of Bank financing response. The response posits that financing allocations are based on factors, such as medium-term development sustainability, that are not captured by crisis severity indicators. Ex post correlation between crisis severity and financial allocations also lacks an ex ante counterfactual to assess what would have been the scenario without crisis support (IEG 2011a).

delays in the IFC's trade finance programs, despite their overall success, also limited their full effectiveness.[15]

As the following section discusses, the World Bank Group has in the subsequent decade internalized and capitalized on these lessons in its evolving operating model and strategy.

Changes in strategy and operating model

Partly building on the legacies and lessons of the global recession, the World Bank Group's strategy and operating model have undergone a number of changes. These changes have largely been aimed at improving the World Bank Group's global economic surveillance and monitoring, rebuilding its capital, and refining its operating model, including through the adoption of new crisis-response mechanisms. In addition to adopting a new financial sustainability framework, the World Bank Group's most recent capital increase package in 2018 also set out crisis management as one of the top-five priority areas of leadership in global issues, including an emphasis on crisis management in the cases of fragility, conflict, and violence (FCV) (Development Committee 2018a; World Bank 2018a). These developments are in line with the World Bank Group's "The Forward Look: A Vision for the World Bank Group in 2030" (Forward Look), which explicitly aims to expand the range of innovative financing solutions and analytical capabilities to address crisis risks (Development Committee 2018b). The World Bank Group is also assessing its crisis preparedness along various operational dimensions in response to rapidly changing global economic circumstances and technological progress, as evident in the IEG's comprehensive ongoing evaluation of World Bank Group crisis preparedness in addressing fiscal and financial sector vulnerabilities (IEG 2019a).

Global economic and development surveillance

Since the global recession, the World Bank Group has further enhanced its capacity to monitor the global economy and also sought to link its institutional analytical work more closely to its financing operations. Until mid-2014, the World Bank Group's institutional analysis of global economic and poverty developments was tilted toward conjunctural issues, focusing on recent developments and forecasts in the *Global Economic Prospects* (GEP) series and focused on development progress assessment in the *Global Monitoring Report* series. These analyses have evolved in important ways.

Global economic monitoring. Faced with continuing uncertainties in the global economic outlook after the global recession, in 2014 the flagship *GEP* report expanded its analytical contents to examine in depth global economic issues and their implications

[15] The World Bank Group management's response to the IEG findings points to some differences in views about the financial sector response. Management agreed that, although financial sector skills and capacity were limited in some instances, it was not the case overall (IEG 2011a). The Financial and Private Sector Network also conducted informal work that was valuable during the crisis, and core capabilities were strongly maintained in regions like ECA and in economies like Colombia and Ukraine.

for EMDEs. Global outlook surveillance and discussions are informed by extensive analytical work on risks, vulnerabilities, and structural changes in the global economy.

The January 2015 issue of the *GEP* was the first to take on this expanded effort and analyzed the challenge of limited fiscal space available to EMDEs in the aftermath of the global recession. In subsequent issues, the *GEP* has examined in depth the risks and vulnerabilities most relevant to EMDEs, including the economic growth and financial spillovers from advanced economies to EMDEs and from larger EMDEs to smaller ones (World Bank 2016a). Another issue examined the weakness in investment growth in EMDEs in recent years and its implications for growth prospects (World Bank 2017a). These topics have been complemented by a range of analyses on longer-term challenges facing EMDEs, including assessments of potential output growth, challenges in the informal sector, and growth prospects of LICs (World Bank 2018b, 2019a). The *Commodity Markets Outlook* further complements the analyses in the *GEP* through specialized angles, including analytical work on the oil price collapse of 2014-16 and the role of major EMDEs in global commodity demand (World Bank 2015a, 2015b).

The World Bank Group also pursued additional efforts to monitor macrofinancial risks. This includes an in-depth analysis of risk management in the 2014 *World Development Report* (World Bank 2014). The *Global Financial Development Report* examined special topics on financial development, such as long-term finance (World Bank 2015c). The Equitable Growth, Finance, and Institutions group of the World Bank Group more intensively assessed financial stability risks across the global economy, created new macrofinancial and corporate financial risk indicators to quantitatively benchmark these risks across economies, and established new databases to measure the extent of financial development across the world. With a more targeted focus on the financial sector, these efforts complement the macroeconomic analyses in the semiannual regional updates produced by World Bank Group regions.

The synthesis of analytical and conjunctural work in the *GEP* and other related products is intended to provide, through deeper analysis of policy challenges, a stronger basis for sound policy advice that is both tailored to country-specific needs and globally consistent. It helps flag risks to the global economy and the most pressing vulnerabilities of EMDEs.

Global development monitoring. Three editions of another flagship report of the World Bank Group—the *Global Monitoring Report* (*GMR*) on development and poverty—have examined the impact of the global recession on poverty and related outcomes. The 2009 *GMR* examined the development emergency associated with the crisis; the 2010 *GMR* studied the Millennium Development Goals (MDGs) in the postcrisis era; and the 2011 issue reexamined the challenges of attaining the MDGs in 2015, the target year (World Bank 2009b, 2010b, 2011b). The *GMR* subsequently evolved into the *Poverty and Shared Prosperity* report, dedicated to informing its global audience of the latest and most accurate estimates of global poverty developments (World Bank 2016c).[16] The

[16] These estimates are supported by simulations with microlevel data collection and modeling, including microsimulation models to predict the ex ante poverty and welfare impacts of crises.

comprehensive and overarching analytical guidance in the *GMR* and *Poverty and Shared Prosperity* complement the World Bank's long-standing flagship *World Development Report*, which examines topical issues that affect development outcomes, including those related to learning, gender equality, governance and law, and digital dividends (World Bank 2012, 2016b, 2017b, 2018c).

These surveillance and analytical efforts—some new and some long-established—provide the analytical basis for understanding when countries are at risk of crisis and what remedies match their economic vulnerabilities.

Capital adequacy

During the global recession, the capital adequacy of the World Bank Group declined considerably. The IBRD's equity-to-loans ratio fell from 38 percent at the end of FY2008 to 29 percent at the end of FY2010. This ratio was still above the IBRD's then policy minimum capital adequacy level of 23 percent, showing that the institution still had sufficient capacity to further increase its lending substantially if needed.[17] The decline in capital buffers, however, also led to a recognition that replenishment may be needed should a future global crisis arise, as discussed in communiques before and after the onset of the global financial crisis.[18]

Financially, this recognition led to a capital increase of $86.2 billion in 2010 for the IBRD and $200 million for the IFC, the World Bank Group's first capital increase in more than 20 years. For the IBRD, the increase comprised callable capital of $81.1 billion and paid-in capital of $5.1 billion. Along with this capital increase, preparation for future crises was explicitly set as one of the World Bank Group's five new postcrisis priorities. Similarly, the global recession partly motivated the replenishment of $49.3 billion for IDA (IDA16) in the same year. A new Crisis Response Window to support countries under severe stress was established during this replenishment (World Bank 2011a; discussed in detail in the next section).

In the eight years following the 2010 capital increase, the IBRD continued to expand its commitments to meet growing development challenges: IBRD commitments registered an annual average of $21 billion (2010 U.S. dollars) during FY2011/12-FY2018/19, about 1.5 times the annual average lending level during FY2003/04-FY2008/09. The rise in lending meant that—despite the increase in capital—the equity-to-loan ratio eased somewhat, which partly motivated another capital increase that was approved in

[17] The minimum capital adequacy ratio was later lowered to 20 percent in FY2014. This, along with other internal measures taken in the past several years, such as multiple loan pricing increases, helped the IBRD maintain lending capacity despite prolonged low interest rates serving as a headwind to income generation (World Bank 2018a).

[18] In October 2008, the Development Committee stated that "IBRD has the financial capacity to comfortably double its annual lending to developing countries to meet additional demand from clients" (Development Committee 2008). Half a year later, in April 2009, however, the Development Committee recognized that, "given the possibility of a slow recovery, we considered the potential need to deploy additional resources and asked the World Bank Group to review the financial capacity, including the capital adequacy, of IBRD and IFC, and the adequacy of the concessional resources going to IDA countries, for our further consideration at the 2009 Annual Meetings" (Development Committee 2009).

2018. This capital increase included $13 billion in paid-in capital, $7.5 billion of which was for the IBRD and $5.5 billion of which was for the IFC, and $52.6 billion in callable capital for the IBRD.

The 2018 capital increase was accompanied by a newly formulated priority area for lending—crisis resilience, with the following three dimensions (Development Committee 2018b, 2018c; World Bank 2018a). First, a new IBRD financial sustainability framework was adopted, aiming to balance long-term lending sustainability with crisis needs. In particular, a new metric of long-term financial sustainability, the Sustainable Annual Lending Limit (SALL), was adopted. It indicated a lending level that would be sustainable over a 10-year period, yet permitted the establishment of a crisis buffer that allowed greater lending volume to meet urgent unanticipated needs. Second, for cases of FCV, emphasis was placed on crisis prevention—stemming the escalation of FCV situations and their spillovers—through increased allocation of World Bank Group resources, including support to the private sector to create economic opportunities. Third, the need was recognized to manage potential risks of a regional or global nature, which included recognition of the World Bank Group's role in helping the provision of global public goods, such as mitigation of climate-related risks. These priorities are grounded on the institution's "Forward Look" endorsed by the Development Committee two years earlier (Development Committee 2018b).[19]

Since 2010, IDA has also undergone two further capital replenishments, in 2013 (IDA17) and 2016 (IDA18). The IDA18 replenishment reached an unprecedented level of $75 billion and included additional financial support for crisis management. Under this replenishment, a new $2.5 billion Private Sector Window (PSW), jointly operated by the IFC and MIGA, was introduced to help mobilize private sector capital to deal with LICs' development challenges, including crises related to FCV.

Improvements to the operating model

Since the crisis, the refinements in the World Bank Group's operating model have helped address the limitations associated with its response to the global recession. Refinements include an expanded policy toolkit, tighter Bank-wide alignment of its financing strategy, and new crisis-specific facilities.

During the global recession, some poverty-targeted social safety nets proved to be insufficiently flexible to allow wider coverage or adaptation of benefits to meet needs or to reach newly vulnerable households. In particular, LICs often lacked adequate programs, poverty data, and systems to target and deliver benefits effectively (IEG 2011a). These features constrained the full effectiveness of the World Bank Group's social protection response during the global recession (IEG 2017b). Drawing on this lesson, the World Bank Group has moved from an approach that focused on assistance

[19] In June 2019, the IBRD approved a crisis buffer size that amounted to $10 billion; consequently, the crisis buffer-adjusted sustainable annual lending limit was $28.1 billion for FY2020. For perspective, this limit combined with the crisis buffer amount to about 8 percent of the size of net capital flows contraction to EMDEs during the global recession ($504 billion).

delivery to an approach that focused on building institutions in addressing social vulnerabilities (IEG 2011b, 2019a). This change provides scope for the World Bank Group to play a greater role in helping to design the social safety net systems of client countries, rather than just facilitating the delivery of assistance.

Similarly, the World Bank Group has adopted a more global approach to crisis prevention to complement its country engagement model, part of its Forward Look for 2030 (Development Committee 2018b). In September 2016, the World Bank Group established the Global Crisis Risk Platform (GCRP) to build a Bank-wide approach to the identification and mitigation of crisis risks (World Bank 2018d).[20] This platform seeks to align the World Bank Group's objectives and approach in the areas of crisis expertise, knowledge sharing, and risk monitoring, in addition to promoting further multilateral coordination. It includes initiatives to conduct integrated risk assessments at the Bank level, informing Systematic Country Diagnostics to help client economies identify country-level macrofinancial risks and their corresponding policy responses.

Another global effort the World Bank Group has undertaken is the Maximizing Finance for Development Approach. This approach is based on a "cascade" concept, under which projects prioritize private sector solutions when possible and effective. The approach systematically aims to scale up private sector involvement in addressing development challenges, and it targets reforms in areas where there are market failures and constraints on private sector solutions. The IFC helps implement this approach through its IFC3.0 corporate strategy, which seeks to address major development challenges by creating markets and mobilizing capital to countries where private capital flows are inadequate. This approach is also the basis for the IDA18 IFC-MIGA PSW. The PSW mobilizes private capital and mitigates investment risks to the most underdeveloped markets, including many affected by FCV, through several investment and guarantees facilities. For example, the PSW has already helped mitigate financial risks for private sector-led housing development and agribusiness in South Asia and Sub-Saharan Africa. This approach not only fosters an environment conducive to private investment but could also help mobilize private financing during crises.[21] This facility also exemplifies the World Bank Group's increased emphasis on mobilizing private sector capital to achieve better development outcomes (Development Committee 2015; IEG 2019b).

The World Bank Group has adopted a number of new crisis facilities specific to LICs, drawing on the lessons of the global recession. One of the first innovations adopted in the wake of the global recession by the World Bank Group was the Pilot Crisis Response Window (CRW), approved in December 2009 and intended to help IDA countries cope with severe economic crises and protect core spending on health, education, social safety nets, infrastructure, and agriculture. The CRW was formally established under the

[20] The GCRP was originally named the Global Crisis Response Platform and considers crises across six domains: natural hazard, health, political/security, economic/financial, technological, and societal (World Bank 2018d).

[21] The World Bank Group's response during the global recession involved the private sector in some instances, such as through the IFC's Infrastructure Crisis Facility, where public-private partnerships were managed by the facility. These efforts, however, lacked central coordination at the World Bank Group level (IEG 2011a).

IDA16 replenishment, and now covers economic crises, natural disasters, and public health emergencies.[22] An Immediate Response Mechanism was also adopted in 2011 to allow participating IDA economies to have immediate access to some undisbursed portion of existing investment project balances in the event of crisis. The proposed IDA19 replenishment package seeks to advance the crisis risk management agenda, including allowing the CRW to support earlier responses to crises with slower onsets (that is, disease outbreaks and food insecurity; IDA 2019a). IDA is also looking to introduce commodity hedging intermediation services to member countries before end-IDA18, which will help manage their fiscal exposure to commodity prices. Moreover, IDA19 intends to further address debt vulnerabilities in IDA countries, including strengthening debt sustainability monitoring (IDA 2019b).

The World Bank Group also revived and expanded its use of instruments that were introduced before but not deployed during the global recession. They include Policy-Based Guarantees, a nontraditional form of development policy financing that guarantees principal or interest to international commercial banks, which would in turn provide budget support to national governments on better terms. Policy-Based Guarantees allow for a deeper volume of lending than traditional DPLs and are especially useful during periods of international market turbulence. These instruments helped Western Balkan economies meet financing needs in 2011-14 when they were adversely affected by market conditions associated with the legacies of the global recession (IEG 2016).

The refinements to the operating model since the global recession include deepened engagement with multilateral partners and across World Bank Group entities. The GCRP broadens the World Bank Group's collaboration with multilateral organizations of all types, including development, humanitarian, and private organizations, to ensure stronger service implementation, promote knowledge sharing, and develop an integrated approach to crisis vulnerabilities monitoring. The PSW demonstrates the synergies that collaboration among World Bank Group entities can deliver to promote private investment. In IDA19, a proposed Creditor Outreach Program seeks to strengthen IDA's convening role in sustainable lending practices by promoting information sharing and coordination among borrowers, creditors, and development partners (IDA 2019b).

Support to reduce the risk and impact of crises and to build resilience

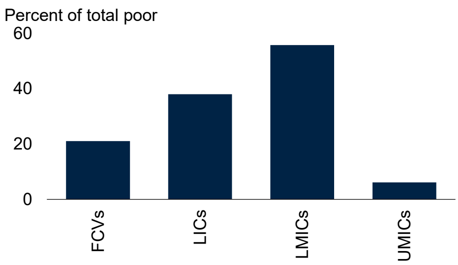
The global recession has had a long-lasting and damaging effect on development outcomes (chapter 3). In 2015, about 10 percent of the world's population lived on less than $1.90 a day (World Bank 2018e). LICs and LMICs together account for more than 90 percent of global poverty (figure 8.4). Poor countries face overlapping

[22] CRW resources can be accessed if there is evidence of a severe economic crisis that is caused by an exogenous shock and that affects a significant number of IDA-eligible countries, as follows: (i) the crisis is expected to result in a widespread or regional year-on-year GDP growth decline of 3 percentage points or more; or (ii) a severe price shock did not result in the foregoing GDP growth decline but is broad-based and severe in terms of fiscal impact, or there is consensus a concerted international response is needed; and existing IDA allocations of affected countries are deemed insufficient for crisis response.

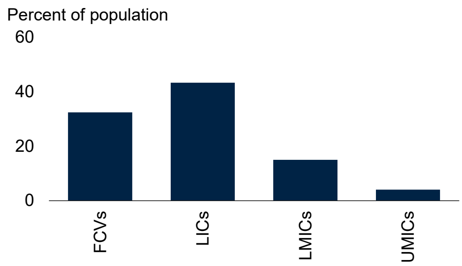
FIGURE 8.4 Global and national poverty

LICs and LMICs together account for more than 90 percent of the global poor. Poverty rates are on average about one-third in FCV countries and are above 40 percent in LICs.

A. Distribution of global poor



B. National poverty rates



Source: World Bank.

Note: Poverty defined as people living on $1.90 per day or less. FCVs = countries affected by fragility, conflict, and violence; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

A.B. Available data based on 31 FCVs, 27 LICs, 46 LMICs, and 50 UMICs. Based on 2015 poverty estimates. Income classification based on current (2020) fiscal year.

A. Columns denote the percent of total global poor in each respective group denoted.

B. Columns denote the unweighted average poverty rate of each respective group denoted.

constraints on growth of per capita income, including weak institutions, underdeveloped financial systems, and limited integration with global markets. Difficulties in overcoming these constraints are naturally associated with higher poverty rates.

In 2013, the World Bank Group adopted the twin goals of ending poverty and promoting shared prosperity. The World Bank Group's crisis prevention strategy is one of the means to meet the twin goals. This strategy can be viewed as comprising two components: support aimed at reducing crisis risk and impact, and support aimed at building longer-term structural resilience to crises. In the World Bank Group's Forward Look for 2030, building resilience is defined as one of the top priorities. This strategy also incorporates crisis vulnerabilities reduction as part of a vision to lead on the global public goods agenda (Development Committee 2018b). This strategy also balances long -term lending financing sustainability with crisis lending agility, as evident in the most recent IBRD financial sustainability framework (World Bank 2018a).

Support to reduce the risk and impact of crises

The World Bank Group can help its member countries to reduce their vulnerability to crises, and can assist them when crises do materialize, in a number of dimensions.

Countercyclical fiscal adjustment. As the World Bank Group's response to the global recession highlighted, countercyclical support for EMDEs during economic downturns is crucial under environments where national governments' fiscal space is constrained. The World Bank Group can provide this support through its DPLs, which provide direct budget support to national governments and enable them to protect the poor in times of economic stress. This support often takes place as part of broader countercyclical support packages of IFIs and is especially important now given the lack of fiscal buffers in many countries. The SDPL option associated with DPLs can be helpful in accelerating multilateral financing during crises. DPLs can be coupled with World Bank Group technical assistance to support reforms and capacity building that can improve the quality of the fiscal response and signal national governments' policy commitments, thus boosting confidence in financial markets.[23]

Debt management. High debt limits the effectiveness of fiscal policy and increases an economy's vulnerability to financial crises because of risks like higher rollover costs and currency depreciation at times of financial stress (World Bank 2019c). Government debt in EMDEs has risen substantially in the postcrisis period, and private debt has also risen well above historical averages.

Among LICs, debt-related vulnerabilities are a particular concern: since 2013, median government debt of LICs has risen by about 20 percentage points of GDP and has increasingly reflected borrowing from private and other nonconcessional sources (World Bank 2019a). Further, given the high levels of external debt of these economies, most of them would be vulnerable to a sharp weakening in global trade or financial conditions. The need to identify and reduce debt-related vulnerabilities is thus a priority for many LICs. In MICs, elevated private debt may also entail risks to government budgets because, as shown in past crises, private debt can shift to government balance sheets via government support of private institutions under stress.

Effective public debt management is needed to help preserve macroeconomic stability, reduce financial vulnerabilities, and boost investor confidence in sovereign assets (World Bank 2013). Interest and exchange rate volatility requires debt managers to properly assess and mitigate risks, and to maximize financing options. The World Bank Group helps strengthen EMDE debt management through debt performance diagnostic assessments, training, multilateral coordination, and, for LICs, financing through a multilateral trust fund-based Debt Management Facility. The World Bank Group's Debt Management Performance Assessment examines progress in key indicators on government debt management, including those relating to debt strategy formulation, legal frameworks, transparency improvement, and managerial structure. It also shows areas for improvement, especially in auditing and coordination with fiscal policy. Other types of debt management assistance include the provision of tools for medium-term debt management strategies, country visits by staff and expert consultants, regional training events, and support for debt managers' peer learning programs. These efforts are organized as part of a new multipronged approach (joint with the IMF) envisioned in 2018 to address debt vulnerabilities (Development Committee 2018d).

The World Bank Group (jointly with the IMF) has also recently revised the Debt Sustainability Framework for Low-Income Countries to enhance its ability to accurately identify debt risks and incentivize comprehensive debt data coverage. Last, the World Bank Group's Debtor Reporting System publishes detailed information on the terms

[23] A recent IEG study of development policy financing in IDA countries finds that having a Public Expenditure Review before DPL and technical assistance during implementation enhance the effectiveness of DPLs (IEG 2018b).

and conditions of public and publicly guaranteed long-term external debt; and participation in the system is a condition of IDA and IBRD borrowing. For MICs, the Government Debt and Risk Management Program provides technical assistance in public debt management, including in areas like capacity expansion of country debt management offices, contingent liabilities risk management training, and capital markets development.

Domestic resource mobilization and revenue management. Government revenue mobilization is essential for the financing of productive government expenditures, including investment in human capital development and infrastructure (Junquera-Varela et al. 2017). Yet economies that are most in need of revenues also often face the largest challenges in tax collection. Domestic resource mobilization is also critical in oil exporting economies, where energy subsidies are high, fiscal buffers are low, and revenues are sensitive to oil price fluctuations. In most LICs, the challenge of resource mobilization has increased with rising debt levels, because interest payments have been absorbing an increasing proportion of government revenues (World Bank 2019a).

The World Bank Group assists EMDEs, and especially LICs, to diversify their domestic revenue bases, including through financial support and assistance in the design of strategies to strengthen domestic resource mobilization, diagnose bottlenecks, and track reform results. DPLs have supported efforts by some countries to reduce fuel subsidies, with implementation guided also by technical assistance for poverty and social impact assessments. Systematic country diagnostic exercises in many oil exporters have identified the policy priorities for revenue diversification of these economies. The World Bank Group is also taking steps to strengthen its analytical capacity related to taxation (IEG 2017a) and to assess the effectiveness of its past implementations of public financial management support (IEG 2018c).

The World Bank Group also provides technical support on public expenditure management to promote equity in fiscal policy (for example, critical protection of programs for the poor in fiscal consolidation programs) and to monitor contingent liabilities. Public Expenditure Reviews can support many development financing operations by identifying detailed spending and investment priorities. These in turn could serve as useful benchmarks for other IFIs' country programs and enhance collaboration with them. For MICs, the IFC provides taxation advisory services in conjunction with client cofinancing, helping to improve business taxation design and efficiency. Both the IBRD and the IFC also promote public investment management, such as through public-private partnerships.

Well-targeted social benefit reforms. Effective social protection helps households cope with job losses and declines in income. With limited precautionary savings, households just above the poverty line are often at high risk of slipping back into poverty during times of economic stress and the poor into further destitution (World Bank 2001, 2019a). The employment of the poor and vulnerable tends to be less secure and informal (World Bank 2019b). The World Bank Group supports universal access to social protection. Building scalable safety net and active labor market programs and effective systems of income support for the unemployed is critical for crisis preparedness.

In many countries the coverage and adequacy of these systems are limited. The World Bank Group strengthens data analysis and research in social protection, supports program design, builds institutional capacity, and provides country-specific financing strategies.

Financial sector reforms. Stable financial systems and intermediation are key to preserving the best risk-benefit trade-off associated with financial deepening and to reducing the amplification of financial crises. The World Bank Group promotes global financial stability by helping governments improve payment systems and enhance banking supervision, as well as by strengthening capital market development and designing sound regulatory frameworks. It helps provide advice on the design and implementation of micro- and macroprudential frameworks, supports the establishment of deposit-insurance systems and financial safety nets, and strengthens crisis management and preparedness.

The FSAP, conducted jointly with the IMF, assesses potential vulnerabilities in the financial sector and promotes financial development. The World Bank Group also contributes to standard-setting bodies and other global engagements, including by serving as a member of the Financial Stability Board and Basel Committee and actively participating in the design of global regulatory reforms. The World Bank Group is also monitoring emerging financial risks, including competitive pressures on traditional banks and financial service providers from financial technology and the growing dependence of financial institutions on information and communication technology outsourcing.[24]

The World Bank Group helps reduce the vulnerabilities of SMEs, which typically lack credit ratings, have fewer financing options, and are less diversified. SMEs' access to external finance is more likely than that of larger firms to depend on specific and close banking relationships, and information asymmetries can be difficult to overcome (Beck and Demirgüç-Kunt 2006). This makes SMEs more vulnerable to bank credit crunches. The World Bank Group supports policies to improve access to finance, including measures to mitigate and overcome information asymmetries, such as the introduction of collateral registries (Love, Martínez Pería, and Singh 2013). The World Bank Group also supports financial inclusion of households to help the poor access critical financial services in times of crisis. Technical assistance in this area also deploys microdata collection at the household level that allows more precise impact evaluation of financial sector policies.

The IFC provides investments and technical assistance designed to directly stimulate private sector investment, such as bond issuances that relieve financing bottlenecks in the underdeveloped capital markets of LICs. It also works with financial institutions to promote investment and advisory support for SMEs and women-owned businesses, to provide technical expertise on risk management, to help reinforce responsible finance

[24] As part of FSAP analyses or stand-alone diagnostics, the World Bank Group also promotes financial stability through technical assistance and capacity building in supporting Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards.

(for example, introducing environmental standards), and to support trade finance (for example, Global Trade Finance Program to issue risk-mitigating guarantees in markets with limited trade lines). MIGA helps lower the risks and uncertainty associated with private domestic investment and foreign direct investment via its political risk insurance or guarantees. Both entities help to provide a more favorable and resilient environment for private investment, a priority in global financial system reform (G20 2018). Moreover, as the aforementioned IFC-MIGA IDA18 PSW demonstrates, these entities are able to leverage collaborative synergies in joint operations, an identified area for improvement from the global recession experience (IEG 2019a).

Support to build long-term structural resilience

The areas of support discussed in the previous section can reduce the risk and impact of crises for EMDEs. Most of the World Bank Group's other support areas may be viewed as helping to build longer-term structural resilience to crises. These focus areas can be especially relevant for LICs. For these economies, transmission of adverse external developments to the domestic economy is often due less to direct linkages than to an inadequately diversified economic base domestically and a lack of resilience in the economy's institutions and structural policy frameworks.[25]

LICs' growth and development prospects have become more challenging in recent years, partly because today's LICs are further below the middle-income threshold and are more fragile than the LICs in 2001 that have recently graduated to MIC status (World Bank 2019c). Moreover, the reliance on agriculture of today's LICs makes them particularly vulnerable to climate change, including extreme weather events. These challenges call for a broad set of long-term structural policies to build resilience, which the World Bank Group has incorporated into its analytical work, policy advice, and financing efforts across most sectors in the past decade (IEG 2017b).

Institutional and governance reforms. Good governance underpins sustainable growth (World Bank 2017b). Strong institutions help countries prosper and reduce poverty by creating an environment that facilitates private sector growth and job creation and delivers government services efficiently. The World Bank Group helps countries strengthen public policy processes and manage public resources effectively. This includes technical support to strengthen coordination across branches of government, establish e-procurement processes, and create new tools to assess citizen engagement. It also helps enhance trade competitiveness by strengthening trade regulatory and logistics frameworks and by promoting trade integration and connectivity.

Learning-focused education reforms. Effective and inclusive education is key to ensuring equal opportunities, the attainment by individuals of their potential, and the long-term growth of income (World Bank 2018c). The World Bank Group works with

[25] In fact, LICs were somewhat more resilient to the global recession initially than previous global crises because they had relatively better precrisis macroeconomic performance, modest debt burden, high commodity prices, and improved policy frameworks. Nonetheless, their lack of long-term resilience to commodity price collapse and global macroeconomic shocks severely affected growth in LICs after the global recession elapsed (World Bank 2010b).

countries to strengthen their education systems to be inclusive for all children, including in focus areas such as early starts, professional teacher development, teacher-student interaction improvement, and education systems capacity strengthening.

Health care reforms. Access to high quality healthcare reduces the financial risks and social costs associated with ill health and is key to promoting social equity and growth (World Health Organization and World Bank 2017). The World Bank Group provides financing and policy advice to improve health service delivery and quality, including those to eradicate maternal and child mortality, improve child nutrition, and prevent communicable diseases.

Greater female workforce participation and access to services. Women are often the hardest-hit by economic downturns because they are more likely than men to work in precarious employment situations, to receive lower pay, and to have poorer access to health and sanitation services (World Bank 2012, 2015d). The World Bank Group supports programs that increase or sustain women's economic opportunities, including expanded access for women to education and health care through economic downturns and crises, as well as those that finance women-focused labor market programs.

Climate-smart infrastructure investment. Climate change poses ever-growing risks, which vary among EMDE regions. More extensive droughts and extreme heat are causing more harvest failures and desertification. Rapidly spreading forest and grassland fires increasingly threaten built-up areas and resource-based industries. Cyclones of unprecedented power have already caused catastrophic floods in agricultural plains and river deltas, as well as mountain range mudslides.

Because of their location and topography, many LICs and small island developing states are particularly vulnerable to climate-related shocks, especially given that many of these countries depend heavily on agriculture. These vulnerabilities are further exacerbated by limited infrastructure and lack of financial resources. Climate change, including associated natural disasters and extreme weather events, can affect the most vulnerable through lower consumption, poorer health, and lower agricultural yields (World Bank 2016d).

The World Bank Group helps countries address these issues by financing renewable energy projects and climate-smart agricultural investments, as well as by integrating climate-change solutions into lending projects. In 2018, the World Bank Group set out new climate action targets for 2021-25, doubling its five-year investments to about $200 billion to support climate action.[26] It also manages the Global Facility for Disaster Reduction and Recovery, a global partnership that provides financing and technical assistance to strengthen climate change resilience. It supports natural disaster risk insurance, such as the issuance of Pacific Alliance Catastrophe Bond against earthquakes in four LAC economies, helping to transfer risks to financial markets and reduce risks

[26] About 10 percent of the World Bank's financial commitments are now devoted to activities related to disaster risk management, including those that help countries improve fiscal and budgetary resilience to climate and disaster risks (Development Committee 2018e).

borne by investors (Vegh et al. 2018). The IFC helps finance large climate projects involving public-private partnerships and climate-smart agribusiness projects. The World Bank Group also promotes knowledge exchange about climate change resilience among multilateral and national experts through initiatives like the Small Island States Resilience Initiative.

Resilience to fragility, conflict, and violence. FCV economies have limited ability to withstand external shocks. Although they often have limited trade and financial linkages to the rest of the world, the collapse in commodity prices associated with the global recession diminished donor support, constrained access to financial services, and reduced remittances in a number of fragile economies (Allen and Giovannetti 2011). Sustained economic growth is critical for stabilizing FCV economies: the risk of conflict has been estimated to rise by 1 percentage point for each percentage point decline in per capita income growth (World Bank 2000). The global recession highlighted the importance of strengthening state capacity building and resilience against commodity price fluctuations, which formed the main channel of transmission of global economic stress to fragile economies. The World Bank Group supports efforts to address urgent capacity -building needs in fragile economies, including through preventive efforts (for example, risk and resilience assessments), the provision of financing to address forced displacement (for example, Global Concessional Financing Facility), and the promotion of women's inclusion in peace accords (UN and World Bank 2018).[27]

Conclusion

During the global recession, the World Bank Group nearly doubled its annual financing commitments and provided support to a large number of crisis-affected countries. Its extensive and rapid response made use of traditional financing instruments, new crisis-specific facilities, and extensive advisory activities.

Drawing on this experience, the World Bank Group has since enhanced its surveillance of the global economy, rebuilt its capital, and refined its financing and operating model. These efforts have built a more extensive portfolio of support instruments to help member countries in times of economic stress, some directly through the reduction of crisis risk and impact, and others by helping to build longer-term resilience. The World Bank Group has improved its ability to provide countercyclical support, while also retaining the capacity to continue its long-standing focus on strengthening long-term resilience for client economies during normal times.

The global recession highlighted the significant damage that major adverse shocks can do to the achievement of poverty reduction and shared prosperity, and therefore the critical importance of crisis prevention and management for achieving these goals. The current global economic environment is marked by weak growth momentum, and risks to the outlook are heavily tilted to the downside (World Bank 2019c). High levels of

[27] Financial services delivery in fragile economies could be further facilitated by financial technology (World Bank and International Monetary Fund 2018).

public and private indebtedness mean that consumer and business confidence are vulnerable to policy missteps or other shocks—including a further escalation of trade tensions, financial stress, policy uncertainty, or natural disasters. Risks are exacerbated by the lack of fiscal and monetary space and the apparently limited appetite for policy coordination among major economies. Although the World Bank Group's response during the global recession was concentrated on MICs, its current support toolkit can also readily respond to other types of crisis risks that may be more relevant to LICs.

The limited policy room that EMDEs would have in the face of adverse shocks underscores the need for the World Bank Group to proactively engage with member countries to help improve resilience and reduce both the risk and the impact of crises. It also highlights the importance for the World Bank of remaining in a strong position to support its members in the event such risks materialize.

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