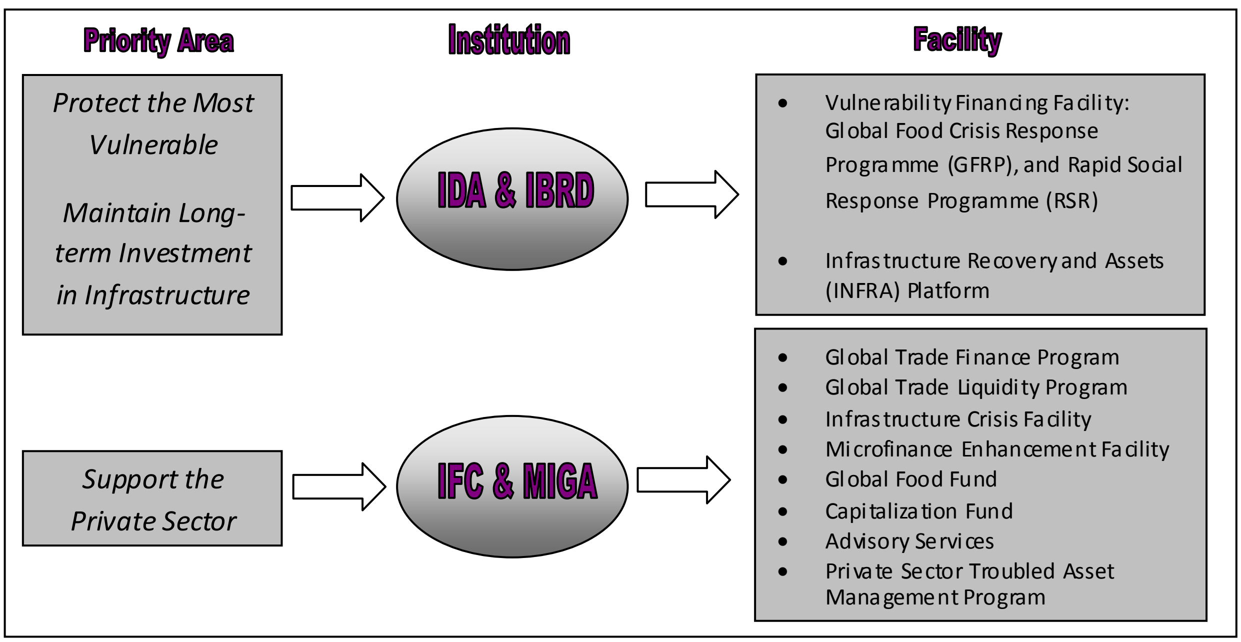
The World Bank's response to the global downturn and recent food/fuel shocks[1]

This background paper discusses the response from the World Bank Group (WB) to the recent global crises, paying special attention to low income countries (LICs) and the responsiveness and adaptability of the WB. Most shock facilities are available to both LICs and MICs (middle income countries) and an exact distinction is not straightforward [2]. This note does not evaluate the planned and implemented programmes of the WB in response to the crises, but instead offer a concise summary of their activities.

The paper focuses on four of the five institutions of the World Bank Group[3]: IDA; IBRD; IFC; MIGA. ICSID is not discussed in this note because it does not appear to have created targeted facilitates or programmes specially for the recent crisis.

The mission of the WB is to fight global poverty and in accordance with this, and in response to the recent global shocks, the WB have expanded and launched a number of facilities and programmes to support LIC and MIC countries. The facilities relate to three priority areas: safety net programmes to protect the most vulnerable; maintaining investments in infrastructure; support for small and medium-size enterprises and microfinance.

Chart 1 The World Bank Group's Response to Global Crises



[1] Background note (August 2009) prepared by Isabella Massa and Heidi Tavakoli of ODI.

[2] Firstly, most shock facilities are available to both IDA and IBRD eligible countries; IBRD is targeted at MICs. Secondly, IDA is available to LIC and MIC countries; 79 countries are eligible for IDA, of which only 43 are LICs.

[3] The WB consists of International Development Association (IDA); International Bank for Reconstruction and Development (IBRD); International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGA); International Centre for Settlement of Investment Disputes (ICSID).

There has also been a Call for Action for developed countries and they have been requested to allocate 0.7% of their stimulus packages, in addition to ODA commitments, to a G*lobal Vulnerability Fund*, targeted at LICs and the poor and vulnerable in developing countries. This would support countries that cannot afford bailouts and deficits by funding investments according to the WB's three priority areas. Donors would be allowed to channel funds through their preferred existing mechanisms (e.g. bilateral/multilateral/NGOs).

First priority area: Safety net programmes to protect the most vulnerable

Vulnerability Financial Facility (VFF)

The VFF is a mechanism to support the poor and vulnerable in LICs and MICs (IDA and IBRD eligible). The VFF channels funds through the Global Food Crisis Response Programme (GFRP) and the new Rapid Social Response Programme (RSR). The VFF programmes are targeted towards two key areas of vulnerability to crisis: i) agriculture, which is the main livelihood for over 75% of the world's poor; ii) employment, safety nets and protection of basic social services. VFF operations are designed to be delivered faster than standard IDA and IBRD programmes, with rapid project preparation, processing and disbursement characteristics. For example, in FY 08/09, GFRP loans were processed on average in under two months, and to-date disbursement rates have been very high. Furthermore, both the GFRP and RSR emphasise co-financing, adding donor funds to IDA or IBRD resources.

Global Food Crisis Response Programme (GFRP)

The GFRP was launched in May 2008 to provide immediate relief to countries hard hit by high food prices. In April 2009, the GFRP was increased from $1.2 US billion (of which $200 US million was grants) to $2 US billion. In addition to this, $200 US million has been provided through Trust Funds. The objectives of the fund are to i) decrease the negative impact of the high and volatile food prices on the poor; ii) support governments in the design of sustainable policies that mitigate the adverse impacts of the food prices; iii) support broad-based growth in productivity and market participation in agriculture.

By June 2009, the GFRP had disbursed $757.6 US million out of $1,151 US million in 33 countries, with an additional $49.4 US million earmarked for programmes in 9 countries. The following LICs have received funds from the GFRP: Afghanistan ($8 US million), Bangladesh ($130 US million), Benin ($9 US million), Burundi ($10 US million), Central African Republic ($7 US million), Ethiopia ($275 US million), Guinea ($10 US million), Guinea-Bissau ($5 US million), Haiti ($10 US million), Kenya ($50 US million; $5 US million), Kyrgyz ($10 US million), Laos ($3 US million), Liberia ($10 US million), Madagascar ($10 US million; $12 US million), Mali ($5 US million), Mozambique ($20 US million), Nepal ($36 US million), Niger ($7 US million), Rwanda ($10 US million), Senegal ($10 US million), Sierra Leone ($7 US million), Somalia ($7 US million), Tanzania ($220 US million), Tajikistan ($9 US million), Togo ($7 US million), Yemen ($10 US million).

Rapid Social Response Programme (RSR)

The RSR is a new initiative to address urgent social needs resulting from the crisis in IDA and IBRD countries. The RSR focuses its interventions on: i) improving access to basic social services, particularly maternal/infant health and nutrition, and school feeding programmes; ii) scaling up targeted safety net programmes; ii) expanding labour market initiatives including income support for unemployed, training and work placements. It is not clear how much money has been earmarked for the RSR[4].

The IDA Financial Crisis Response Fast-Track Facility

At the end of 2008, this fast-track facility was established to front-load IDA and mitigate the impact of the crisis. Money will be spent on safety nets, infrastructure, education and health. $2 US billion has been earmarked for the facility, from the $42 US billion for FY2009-2011 committed through the IDA15 replenishment. The Democratic Republic of Congo is a recipient of the scheme having been allocated $100 US million.

To provide additional donor resources to LICs and fragile states, which will complement IDA, a Multi-Donor Trust Fund is being established, to which the UK has already contributed £200 million.

Second priority area: Maintaining investments in infrastructure

The Infrastructure Recovery and Assets (INFRA) Platform will provide funding for counter-cyclical spending on infrastructure and protect existing assets and priority areas in IDA and IBRD countries in response to the current financial crisis to provide a foundation for rapid recovery and job creation, which will eventually facilitate long-term growth. Experience from the Asian financial crisis shows that infrastructure expenditure was considerably squeezed both during and after the crisis and the INFRA Platform aims to prevent the repetition of this following the current crisis.

The INFRA Platform is a new facility and will provide $45 US billion to fund infrastructure projects over the next three years (with the possibility of leveraging more funds). This is an increase of $15 US billion over the three years preceding the crisis. In July 2009, an inaugural Partners Forum was held to discuss a potential INFRA Platform pipeline. The Infrastructure Crisis Facility led by the IFC (discussed below) will complement the activities of the INFRA Platform.

The INFRA Platform aims to help countries stabilize existing infrastructure assets; ensure delivery of projects that remain government priorities; support Public Private Partnerships in infrastructure; support new infrastructure projects. The INFRA Platform will be implemented through the following components: increased diagnostic and supervisory support (to identify countries where infrastructure investment is most at risk and projects most appropriate for INFRA support); scaled up financing through parallel financing initiatives (to create complementarities and coordination); targeting financing; monitoring and coordination (common tracking system).

Alongside this, the INFRA Platform also includes the Energy for the Poor Initiative (EFPI), which aims to help the poor adjust to the shocks and reduce their vulnerability to high and volatile fuel prices. This will

[4] The World Bank plans to triple its support for social protection programmes to $12 US billion between FY 2009-2011, and part of this will be allocated to RSR programmes.

be done by providing safety nets for the most vulnerable in developing countries (in coordination with the GFRP) and scaling up country funding for energy. The EFPI was launched in 2008. The financial amount targeted for EFPI is not clear.

There will be a specific Africa INFRA Platform program, earmarking financing for a package of high priority, high return investments in Africa. It has been estimated at approximately $5-6 US billion, of which the WB has allocated $2 US billion. There is a financing gap of $3-4 US billion for the remaining amount.

The INFRA Platform will particularly focus on green investments, to support governments' efforts to advance the green agenda.

Third priority area: Supporting the private sector

As part of its mission to promote sustainable private sector investment in developing countries, the IFC has created an operational platform which aims to support the private sector in the face of the most recent global shocks by (i) providing liquidity support, (ii) rebuilding financial infrastructure, (iii) managing troubled assets, and (iv) alleviating specific regional difficulties. These actions are intended for those countries with both immediate and expected needs in Sub-Saharan Africa, East Asia and the Pacific, South Asia, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, and are expected to be financed by IFC funds as well as by other externally mobilized resources.

Providing liquidity support

In order to ease financing and liquidity constraints in a context of financial and economic crisis, the IFC has expanded and launched the following initiatives:

Trade Finance Programmes

As a response to the shortage of trade finance due to the global financial crisis, the IFC has expanded the existing Global Trade Finance Programme and launched the new Global Trade Liquidity Program. The *Global Trade Finance Programme (GTFP)*, which was launched in September 2005 and encourages trade transactions by providing trade guarantees, has been doubled to $3 US billion in December 2008. On the other hand, the *Global Trade Liquidity Programme* has been launched in May 2009 and aims to mobilize more than $6 US billion over three years from governments, international finance and development institutions, as well as banks in order to support $50 US billion of trade. So far, IFC has committed $1 US billion, UK £300 million, Canada $200 US million, and the Netherlands $50 US million. Among the first banks which participate in the program, there were the Standard Chartered Bank and South Africa's Standard Bank.

Infrastructure Crisis Facility

This facility, which complements the INFRA platform, has been established to ensure financing for viable infrastructure projects as well as to enable a minimum level of continued new private infrastructure project development. The IFC has planned to provide up to $300 US million over the next three years and is seeking additional funds from other sources (Germany has committed €100 million). The IFC expects governments and other institutions will invest at least $2 US billion.

Microfinance Enhancement Facility

This is a short- to medium-term facility that has been designed by the IFC jointly with the German development bank KfW, in order to provide up to $500 US million funding to more than 100 sound microfinance institutions in up to 40 poorest countries worldwide. Thanks to this facility, the IFC expects to support lending up to 60 million low-income borrowers. So far, the IFC has provided $150 US million and KfW $130 US million.

Global Food Fund

This facility has been designed by the IFC and its partners to respond to the sharp fluctuations in food prices in the IFC's priority areas. It aims to ease the short- and medium-term constraints in the global food-supply chain by increasing the global supply of agricultural commodities as well as improving the global, regional, and local agriculture infrastructure thus allowing a more efficient distribution of food. The size of the Global Food Fund has been planned to be between $1.5 US billion and $3 US billion.

A key role in restoring liquidity in financial markets has also been played by the Multilateral Investment Guarantee Agency (MIGA), through the following initiatives:

- by providing guarantees totalling over $480 US million to foreign banks lending to their subsidiaries in Ukraine and Russia;
- by contributing to the Joint IFI Action Plan for Central and Eastern Europe (described below) through political risk coverage for up to €2 billion for bank lending;
- by providing political risk coverage for up to $150 US million of the African Development Corporation's (ADC) planned investments.

Rebuilding financial infrastructure

To promote banking systems' stability in developing countries, which is essential for economic recovery and job creation, the IFC has created a new recapitalization fund and refocused its advisory services.

IFC Capitalization Fund

The IFC Capitalization Fund consists of a global equity fund (EF) and subordinated debt fund (SDF) that were created in February 2009, in order to recapitalize emerging markets' private sector systemic banks with a minimum 7% market share (in terms of loans). Up to 15% of the Fund may be invested in state-owned banks with a clear path to privatization. So far, the IFC has agreed to invest $1 US billion in the Fund ($775 US million in the EF and $225 US million in the SDF) over the next three years, and the Japan Bank for International Cooperation (JBIC) has also planned to invest $2 US billion ($500 US million in the EF and $1500 US million in the SDF). This leads to a $3 US billion Capitalization Fund that can reach a maximum size of $5 US billion.

IFC Advisory Services

The IFC has refocused its existing advisory services on three main areas: (i) access to finance, (ii) business enabling environment, and (iii) corporate governance. Indeed, the IFC has planned to provide advice at the firm and bank level on new crisis-response programmes in risk management and non-performing loan management, as well as at the policy level on insolvency framework. In order to do this, the IFC expects a financing need of at least $40 US billion over the next three years.

Managing troubled assets

Due to the global financial and economic crisis, the issue of non-performing loans (NPLs) has become particularly relevant. So, the IFC is planning to create a private sector **troubled asset management program**, which aims to promote transparent auctions to transfer NPLs from government and banks to the private sector. Moreover, the IFC is taking into account the possibility to launch a global facility of up to $4 US billion to acquire and resolve distressed assets, and expects additional external sources of about $3-$3.5 US billion.

Alleviating specific regional difficulties

To respond to the global financial crisis, the IFC has launched a number of targeted regional initiatives jointly with other members of the WB as well as international financial and development institutions:

Joint Action Plan in Africa

This plan, announced in May 2009, has been designed by the IFC, Multilateral Investment Guarantee Agency (MIGA), IBRD and by six other international financial and development institutions in order to provide financial support of at least $15 US billion over the next two to three years to Africa. The IFC has agreed to contribute at least $1 US billion.

Joint IFI Action Plan for Central and Eastern Europe

This plan launched in March 2009 by the World Bank Group, EBRD and the EIB Group consists of €24.5 billion allocated to the region in order to support its banking system and to fund lending to crisis-hit businesses. The IFC, as part of the Word Bank Group, has planned to contribute up to €2 billion.

Joint Effort in Latin America and the Caribbean

This joint effort to promote economic recovery in the region by providing $90 US billion over the next two years has been announced in April 2009 and stems from the cooperation between the IFC, the Inter-American Development Bank and the Inter-American Investment Corporation (IDB/IIC), the World Bank Group, Corporacion Andina de Fomento (CAF), the Caribbean Development Bank (CBD) and the Central American Bank for Economic Integration (CABEI). The IFC is expected to contribute for more than $13 US billion through its own initiatives.